



Diplomarbeit

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**„ Value Creation In Horizontal Mega Mergers at the
Example of Daimler Chrysler and Renault Nissan “**

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1. Introduction

The main focus of my thesis lies on very large international cross border transactions and the question whether they create or destroy shareholder value. Beginning with a short overview of M&A history and the most recent merger waves I will try to outline the basic stages of an M&A transaction, the different rationales behind it and the sources and limits of value creation. Emphasizing the whole aspect of an M&A transaction not only implies the actual merger but also it's long term implementation and the corresponding difficulties related to integration. I will primarily refer to very large cross border transactions, since they have been increasingly popular in recent years and provide an interesting base for further research, due to their increased complexity and impact as compared to "normal" mergers. In order to provide a practical example of very large cross border M&A I use two case studies. The case studies concern the merger of two major international car manufacturers during the previous merger wave in the late nineties and demonstrate the opportunities and risks of international expansion through M&A.

The first two chapters build the introductory part of the paper, where chapter 1 provides an overview of the several stages of an M&A transaction and a short summary of recent merger waves.

Chapter 2 aims to motivate the reader to understand the different rationales for mergers and acquisitions and in the second part introduces horizontal mega mergers, especially large cross border transactions and strategic alliances as an alternative mean.

Beginning with chapter 3 I try to elaborate the main issues related to value creation in mega mergers. In the first part I present the most important sources and limits to value creation. Consequently I summarize the findings of various sources regarding the factors, which most significantly influence value creation and can be referred to as value drivers. In the last section of chapter 3 I highlight the empirical evidence on value creation and examine the impact of transaction size on value creation, which is a central question of my thesis. I further try to provide simple pre merger evaluation methods and performance measures, which should give the reader an understanding of how to asses such large scale transactions in advance.

Chapter 4 comprises two case studies. The aim of this chapter is to relate the theoretical chapters to practical examples and further to demonstrate the important role of post merger integration. The last section of chapter 4 presents the reader with a conclusion indicating my personal opinion on the topic.

1.1. Mergers and Acquisitions as a Source for Value Creation

Mergers and acquisitions have surpassed an extraordinary booming phase during the last years, peaking in the beginning of 2007. According to Thomson Financial announced deal values have reached an all time record high of more than 3.5 trillion USD for 2006. A legitimate question, which has already been extensively studied by empirical research, with respect to Mergers and Acquisitions is whether M&A actually create value for the stake holders of the respective companies considering their managerial, monetary and time cost. A review of the value creating performance of M&A suggests that approximately only about 50%, if not even less, are actually successful in creating overall value. Despite the high risk of such corporate transactions, many corporations still consider M&A as an effective tool for future growth and a source for sustainable value creation. The ever more intensifying globalization, which considerably picked up momentum in the last decade with the arrival of Russia, India and China on the world markets, pushes large corporations to heavily expand internationally, either through organic growth, classical M&A or M&A related transactions such as strategic alliances. A global survey performed by Accenture¹ supports my notion of the growing importance of large cross border acquisitions. The survey is based upon the answers of 420 senior executives from companies headquartered in the US and Europe. The survey aims to provide insights on M&A strategies and recent and potential M&A activity especially concerning cross border transactions.

Some of the key findings of the survey suggest that most recent acquisitions have been cross border, where 58% of the respondents said that their most recent acquisition was a cross border one. 55% of the respondents replied that companies in their industries would be driven to acquire overseas in the next five years to guarantee the profitability of the business. 49% confirmed that cross border M&A would be required to achieve all the targets of the stated corporate strategy. 26% stated that overseas acquisitions were imperative for surviving competition. The survey further indicated that M&A activity is indicated as the key for future revenue growth, whereby more than 50% confirm that global revenues have grown by 18% on average thanks to M&A activity. Another interesting finding is that companies often have a clear strategy on how to enter the market, but have difficulties related to the integration of acquisitions in foreign markets and dealing with cultural differences. Although some of the findings are contradicting with prior research and market data, this trend is likely to continue.

¹ Accenture, “Global M&A Survey – Executive Summary“, Economist Intelligence Unit, 2006, p1-2

1.2. M&A History and Recent Merger Waves

A common finding in M&A literature which is also described by Sudi Sudarsanam² is the fact that mergers and acquisitions occur in bursts interspersed with relative inactivity. This pattern referred to as the wave pattern of mergers has been observed in the U.S for more than 100 years , in the U.K from 1960 on and more recently in Continental Europe. Research has still not fully understood what triggers these waves and why they subside but several possible explanatory factors have been identified. Based on his research and the empirical work of others Sudarsanam points out another phenomenon, which is that during merger waves mergers occur in certain industry clusters. This suggests that certain industries see abnormally intense merger activity at different times, thus there must be a relationship between industry specific factors triggering the wave pattern in clusters. Such behavior implies that companies imply their respective strategies close on the heels of one another. While some firms will be “first movers” others will rather be “me-too” runners. Increased takeover activity as referred to merger waves has occurred in several countries with the US seeing the most activity dating back to 1890. The very first merger waves in the late 19th, early 20th century were based upon the strategic intention to form monopoly, oligopolies or more recently growth. I will shortly consider the most recent merger waves starting with the eighties and going through the nineties and the very last wave, which peaked in 2006 and early 2007. The increased takeover activity during that period showed a growing tendency to take place on a global basis. The wave in the eighties was characterized by high simultaneous acquisition and divestiture activity. As Sudarsanam states, divestitures accounted for 20 to 40% of M&A activity during this period. Thus the main rationale behind that wave can be seen as corporate restructuring, where firms try to focus on a narrower range of businesses in which these companies already have or expect to develop competitive advantage by redirecting investment to them. Many firms were actually reversing the diversifying acquisitions, made during the conglomerate wave of the sixties. Shleifer and Vishny³ refer to the initial conglomerate expansion and subsequent return to the core businesses a “round trip”. Other important implications of the eighties wave were the emergence of hostile takeovers and leveraged buyouts as well as the arrival of private equity firms as new players in the M&A environment.

The wave during the nineties to some extent followed the notion of focusing on core competencies as a source of competitive advantage. The nineties saw the arrival of new

² Sudi Sudarsanam, “Creating Value from Mergers and Acquisitions – The Challenges “, Prentice Hall International, 2003, p13-20

³ A. Shleifer and R.W. Vishny, “Takeovers in the 60s and the 80s: Evidence and Implications”, Strategic Management Journal, 12, 1991, p51-59

technologies, which became accessible on a broad public basis for the first time such as the internet and mobile communication. As a consequence the impact of this wave was enormous as can be seen with the value of M&A deals, increasing from USD 324 bn. in the eighties wave to as much as USD 1.8 trillion in the US and about USD 3.38 trillion worldwide at its height in 2000. Despite this incredible development I must also say that especially deals concerning the new economy have been financed through share transactions, which were based on astronomic valuations, far from being realistic. Sudarsanam describes other important developments of the nineties wave as:

- the imperative of shareholder value as a guide to corporate investment and financing decisions
- the globalization of product, services and capital markets
- mature industries such as automobiles (which will be treated in greater detail with the case studies), banking and food undergoing substantial restructuring
- consolidation of fragmented industries by financial and strategic buyers

The most current boom of M&A activity, which has not yet been ratified as a merger wave, probably due to its timeliness and the lack of data, has commenced in 2005 and lasted through mid 2007. The number and size of deals have reached new record levels, driven by a booming global economy especially in China, India, Russia but also a strong recovery of the U.S and Europe. The economic environment for M&A was very beneficial with solid corporate operational performance, cheap financing (low interest rates) and plenty of opportunities. The current boom has seen strong activity outside the U.S with record activity in Europe and Asia. This trend further underlines the growing impact of globalization. The already mentioned Accenture study⁴ points in the same direction and finds that most recent transactions have been cross border. The focus on core competencies and revenue growth continue to play a key role in M&A activity, while at the same time this wave has seen several large deals financed by financial investors, such as large funds and private equity firms. The rationale behind financial investors is of course a different story. In my view acquirers from a financial background have seized the opportunity of the availability of cheap financing. In many cases the outcome is still unclear. If the financial investors are able to optimize the operations of their acquired asset and thus increase profitability and create additional value, they will be likely to sell the asset with considerable profit within the next years. However the past chapter was intended to provide an idea why and in which

⁴ Accenture, “ Global M&A Survey – Executive Summary “, Economist Intelligence Unit, 2006, p1

economic environment mergers and acquisitions occur. It should have become clear that recent M&A are getting larger in volume and geographic reach. Thus I chose to concentrate on very large cross border transactions.

1.3. The 5 Stages of the M&A Process

Large cross border M&A are very complex and dependent upon a multitude of economic and non economic factors. Sudarsanam⁵ provides a simple comprehensive model, which captures these factors and divides the whole M&A process into five stages.

1.3.1. Stage 1 – Corporate Strategy Development

M&A are considered as a mean to achieve the objectives set forth in corporate strategy. As such the success of a transaction rises and falls with the corporate strategy behind it. Sudarsanam defines corporate strategy as a way of optimizing the portfolios of businesses a firm currently owns and in that respect how this portfolio can be changed to best serve the interests of the firm's stakeholders. Business Literature has come up with several corporate strategy models based on different frameworks such as industry structure, competitive environment or the internal resources of a firm. For example under the industrial organization model of competition firms either choose cost leadership or product differentiation. This approach in general responds to Porter's five forces – current rivalry, threat of entry of new competitors, threat of substitutes, buyer and seller power. Under this model firms acquire to gain additional market power, economies of scale and scope and to internalize vertically linked operations to achieve cost savings. Another recently popular model is the resource based view of competition. Here the internal resources of a firm are considered to be the essence of building firm and sustainable growth. These resources may be financial, human, intangible, physical, organizational and technological. Thus competitive advantage is derived from a firms unique organizational resources and capabilities rather than external industry and market factors. These resources are hard to imitate or substitute. Prahalad and Hamel⁶ refer to this as the firm's core competences, which are embedded in organizational routines and cultures. Sudarsanam notes that acquisitions under this approach can be seen as a

⁵Sudi Sudarsanam, "Creating Value from Mergers and Acquisitions – The Challenges ", Prentice Hall International, 2003, p3-8

⁶ C.K. Prahalad, G. Hamel, " The Core Competence of the Corporation ", Harvard Business Review, May/June 1990, p79-91

search for partners with complementary resources and capabilities, which can be combined with the acquirers to enhance the competitive advantage of both firms.

1.3.2. Stage 2 – Organizing for Acquisitions

A diligent acquisition organization is an essential component of an M&A transaction. It is important to develop an understanding of the acquisition decision process, due to its later impact on the quality of the decision and its value creation logic. Some firms have their own M&A departments devoted to examining the feasibility of the transaction, searching potential targets, how to best organize and implement the transaction etc... In this respect it is important to notice that firms lacking the organization resources to properly plan and organize an acquisition, should not undergo such a transaction since the outcome is very likely to destroy shareholder value.

1.3.3. Stage 3 – Deal Structuring

Deal Structuring implies the organizational preparation and implementation of the transaction with the goal to find a legally binding merger agreement. Sudarsanam elaborated the main issues related to deal structuring and negotiation:

- Valuing target companies and considering how the acquirer wants to leverage its own assets with those of the target
- Choosing outside advisors to the deal such as investment banks, lawyers, accountants etc..
- Information gathering of the target from the target itself and other sources
- Performing Due Diligence
- Determination of negotiation parameters including the “walk away” price negotiating warranties and indemnities
- Negotiating senior management positions in both firms in post-merger dispensation
Developing appropriate bid and defence strategies and tactics

1.3.4. Stage 4 – Post Acquisition Integration

Post Acquisition Integration is a very important stage and often at least partly responsible for the failure of a merger. The main objective is to achieve the strategic and value expectations that initiated the merger. Sudarsanam suggests a change management program for

integration and distinguishes three types of change. These are a change of the target firm, the acquiring firm and a change in both firms in order to accommodate co-existence or fusion of the two organizations. Furthermore in order to be successful the change program should have well defined goals, teams, communication plans, deadlines, performance benchmarks, reward for meeting deadlines and benchmarks and sanctions for failures, etc. Retaining both companies' key executives during the integration process and try to prevent them from going to competitors is also a major challenge of post merger integration. In this regard Canella and Hambrick⁷ find that " Executives from an acquired firm are an intrinsic component of the acquired firm's resource base and their retention is an important determinant of post-acquisition performance." This is especially true for large cross border mergers as cultural differences tend to be larger for example different pay packages for executive management etc.. There have been cases where whole departments were lured away by competitors during post merger integration. Overall post acquisition integration is a very complex task and depends on the circumstances of the merger. There is a multitude of others factors, which are to be considered, thus the past paragraph only addressed key components of a proper integration.

1.3.5. Stage 5 – Post Acquisition Audit and Organizational Learning

This stage is often neglected as the actual merger might already be several years behind, thus there is a lack of attention. Nevertheless in order to achieve the long term benefits of M&A one has to continuously encourage mutual organizational learning. Internal post merger audits for example on an annual basis provide a useful tool to ensure organizational learning and its dissemination.

⁷ A.A. Canella Jr., D.C. Hambrick, "Effects of Executive Departures on the Performance of Acquired Firms ", Strategic Management Journal, 14, Special Issue 1993, p137-152

2. Basic Principles of M&A

2.1. Perspectives (Motivations) for Mergers

There exist several perspectives to explain the incidence of M&A. Thereof Sudarsanam⁸ addresses the most common perspectives, which are economic, strategic, financial, managerial and organizational:

2.1.1. The Economic Perspective

The economic perspective is by far the most common rationale for mergers. The basic principle here is cost reduction and/ or increased market power to gain competitive advantage. In the context of a large multinational firm cost reductions might be achieved through economies of scale and scope. Economy of scale implies that cost reductions in producing a product are achieved through increasing the sale of production in a given period. The fixed component of production costs such as rents, administrative costs etc..can be spread over a larger volume and thus average cost of production falls. It is important to note that there are limits to scale economy referred to as minimum efficient scale (MES). Beyond this point average production costs do not decrease with increasing volume. Scope economy occurs when the total cost of producing and selling several products by a multi-product firm is lower than the sum of costs for production and sale of the same products by individual firms. Scope economies can be achieved in R&D, marketing, distribution etc.. Scope economies depend on the firms certain capabilities and resources to share common applicability across several products. Scale and scope economies can be considered as a function of firm size thus “ big is beautiful and profitable “. Another popular economic motive is transaction cost economies and vertical integration. Here firms try to reduce transaction costs through vertical integration.

2.1.2. Strategy Perspective

The strategy perspective can be characterized by the need to acquire products, technologies and businesses complementing a firm's core competencies and thus enhancing competitive advantage. In this context there exist several views on how to achieve the best competitive strategy. Porter⁹ identifies three generic competitive strategies, namely cost leadership, product differentiation or perceived customer benefits and segmental focus with either cost leadership or product differentiation. An increasingly popular approach is the resource based

⁸ Sudi Sudarsanam, “Creating Value from Mergers and Acquisitions – The Challenges “, Prentice Hall International, 2003, p39-59

⁹ M. Porter, “ Competitive Advantage “, New York: Free Press, 1985, chapter 7

view of competitive strategy. Under this perspective firms are not dependent on external factors but rather seen as proactively managing and shaping their competitive environment. Here competition is based on a firm's internal resources and capabilities. The unique combination of resources and capabilities is what forms the competitive advantage. Barney¹⁰ finds that, assuming that strategic resources and capabilities are heterogeneously distributed across firms, these differences may often persist to give firms a sustained competitive advantage. The main rationale for merging under the resource based view is to benefit from complementary resources and capabilities. In this context mergers should be considered as a dynamic process of capability accretion and creation and as a means of competitive positioning for the future. In this process firms build on their existing resources and capabilities and further obtain substantially new resources and capabilities. Or as Karim and Mitchell¹¹ conclude, acquisitions are a change process.

2.1.3. Finance Theory Perspective

Sudarsanam states that the finance theory perspective considers merger decisions within the framework of conflicts arising among the financial claimholders of the firm. The main elements in this framework are shareholder wealth maximization; the agency model of the firm as a nexus of contracts and the characterization of managers as agents, agency costs and conflicts of interests between principal and agent; deviation from shareholder wealth maximization due to agency problems; internal corporate governance constraints on managerial self interest and external constraints through the market for corporate control. In this context Berle and Means¹² observe increasing separation of ownership from control resulting from diffusion of share ownership and the small proportion of shares held by the managers. Thus heavily dispersed ownership provides no incentive or means for small shareholders to monitor management performance, which in term may enable managers to take decisions enhancing their private benefits at the expense of shareholder interests. Jensen and Meckling¹³ have developed the agency model of the firm. In this model the firm is considered as a nexus of contracts where firms receive capital through issuing equity and debt. In the case of equity shareholders are the principals who delegate the management of the firm to the agent (manager). Managers may pursue their own interests and thereby

¹⁰ J. Barney, " Firm Resources and Sustained Competitive Advantage ", Journal of Management, Vol.17, 1991, p99-120

¹¹ S. Karim, W. Mitchell, " Path Dependent and Path Breaking Change: Reconfiguring Business Resources Following Acquisitions in the US Medical Sector ", Strategic Management Journal, Vol 21, 2000, p1061-1081

¹² A. Berle, G. Means, " The Modern Corporation and Private Property ", New York: Macmillan, 1932

¹³ M. Jensen, W. Meckling, " Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure ", Journal of Financial Economics, Vol 3, 1976, p305-360

destroy shareholder value. This divergence between shareholder and managerial interest represents the agency cost to the shareholders. More or less the same concept of agency costs can be applied to debt. Here the creditors are the principals. As compared to equity holders, which appoint the board of directors, which in turn nominees executive management, debt holders have less direct control over the agent. However they have stronger, legally enforceable contracts and can ultimately force the creditor to insolvency or liquidation. Corporate governance and the external market for corporate control are effective tools to prevent or at least decrease the agency problem. The external market for corporate control may be seen as the last solution, when internal corporate governance has failed.

2.1.4. Managerial Perspective

The managerial perspective on mergers is closely tied to the agency model of the firm. The managerial motives have a great impact on the merger's incidence, rationale, type, deal structure and outcome. As already mentioned managers may pursue different interest than their shareholders, maximizing their own interests. Shareholders can minimize this problem by devising appropriate incentive contracts, which align their interests with that of the manager. A prominent hypothesis in this context is the manager's "hubris" by Richard Roll. Hubris implies that management of the acquiring company overestimate their capacity to create value out of acquisitions and additionally tend to overpay for them. Roll finds that as a consequence most acquisitions fail to create value for the acquiring shareholders.

2.1.5. Organizational Perspective

The organizational perspective on mergers considers a firm's decision making process regarding the merger not completely rational but rather subject to several internal and external factors of political nature. Different stakeholders and actors within the firm each have different perspectives, expectations and motives regarding the merger. The complexity of the transaction requires a management approach, which also considers the organizational dynamics and human aspects of post merger integration. As compared to the other perspectives, it also takes the "soft facts" such as human relation issues etc... into account, which are also an essential part of the merger process.

2.2. Horizontal Mega Mergers

Very large cross border acquisitions or mega mergers form the integral part of this paper. I focus on horizontal mergers, as they are the most common mergers. Sudarsanam¹⁴ defines horizontal mergers where firms selling the same products merge. However despite their recent popularity there still is a significant lack of scientific research on this topic. Strangely enough, although frequently used in the media, there exists no precise definition for mega mergers. Therefore I will try to define the term for my purposes and relate it to existing literature and empirical evidence. In my understanding mega mergers can be referred to very large M&A transactions with overall deal volume often adding up to billions of dollars. Of course such transactions may occur domestically especially in the U.S. but more recently there is increased cross border activity, which is not surprising considering global consolidation in several industries. The main industries where mega mergers have occurred during the past 10 years are telecommunications, automobile, entertainment, financial services, consumer goods, oil and pharmaceutical. In this context mega mergers are often related to industry wide consolidation and can be seen as a response to more globalization and concentration. Thus this development implies that there will only be a few key players left in each industry. Ghemawat and Ghadar¹⁵ say that if firms want to be among the winners, they will have to shore up economies of scale in manufacturing, branding and R&D. They further add that from this perspective, cross border mergers are do or die propositions. Considering the complexity of cross border mega mergers and the fact that already 50% of normal mergers fail, firms better think twice before committing a merger. In the following chapters I try to elaborate an insight on horizontal mega mergers and their value creation potential. In reference to the literature on or related to this topic I highlight the crucial factors in determining the success or failure of such transaction and the impact on value creation. Furthermore I provide performance measures of value creation and limited empirical evidence on large cross border transactions. Finally I demonstrate the implementation of two horizontal cross border mega mergers upon a practical case study based on the Daimler Chrysler and Renault Nissan merger.

¹⁴ Sudi Sudarsanam, "Creating Value from Mergers and Acquisitions – The Challenges ", Prentice Hall International, 2003, p97

¹⁵ P. Ghemawat, F. Ghadar, " The Dubious Logic of Global Mega Mergers ", Harvard Business Review, July-August 2000, p65

Large Cross Border M&A

Sudarsanam¹⁶ registers a substantial increase in cross border M&A in recent years. Considering the nineties merger wave CBMAs with deal values of over USD 1 billion increased from 14 in 1987, representing 40% of all CBMAs, to 109 in 1999, representing 70% of all CBMAs with a total estimated deal volume of USD 501 billions. He finds that the strategic considerations for cross border transactions often differ from purely domestic transactions. CBMAs are much more complex, which is based on differences in the political and economic environment, corporate organization, culture, tradition and tax, law and accounting rules. These difficulties have to be accounted for when considering an overseas transaction. Very large cross border transactions additionally have the size component, which aggravates the previously mentioned difficulties. In this context mega mergers are even more complex, due to the sheer size of both firms and the resources necessary to guarantee the implementation of the merger. What also comes into play with large size transactions is the increased attention of internal media and the investor's community. Under these circumstances one might think that CBMAs are more prone to failure, in fact the empirical evidence is mixed.. Apart from the company specific factors, which drive firms to undertake CBMA, Sudarsanam¹⁷ describes the most essential economic forces in play. I thereby pick the ones that I believe are most applicable to cross border mega mergers:

- The establishment of the EU as single market, the introduction of the European Monetary Union and with it the perception of many European companies that the EU is their home market
- Globalization of product and service goods markets, increasing consumer needs, preferences and tastes creating demand and supply of goods and services originating in different countries
- Increased global competition, with large firms competing on world markets
- Increased pressure from technological progress only possible through massive investments in R&D, design, marketing and distributions. In order to recover these huge expenses, firms have to sell to the largest possible market – thus globalization, e.g. automobiles (see Daimler Chrysler case study)
- Availability of capital to finance these acquisitions through debt and equity financing

¹⁶ Sudi Sudarsanam, "Creating Value from Mergers and Acquisitions – The Challenges ", Prentice Hall International, 2003, p194-215

¹⁷ Sudi Sudarsanam, "Creating Value from Mergers and Acquisitions – The Challenges ", Prentice Hall International, 2003, p197

- Privatization of state enterprises especially in Europe; e.g. in power, gas, telecommunications etc..
- More benign and less hostile attitude to foreign ownership of national corporations partly induced by economic crisis and need for corporate restructuring; e.g. banking or automobile industry in Japan¹⁸ (see Renault Nissan case study)

Having mentioned the economic forces influencing CBMAs I now focus on the internal motivation of a firm to seek expansion beyond domestic boundaries. There are numerous theories drawn from a wide range of disciplines such as industrial/ organizational economics, competitive strategy models, finance theory etc.. Dunning¹⁹ has developed a comprehensive model with respect to the decision process in CBMAs. He distinguishes three evaluation stages. The first stage is based upon the question whether or not the firm has certain competitive advantages that can be exploited to create value through the foreign production decision (Ownership Decision). The second question is whether or not the foreign location for production is superior to the acquirers domestic location and subsequent export to overseas markets (Location Decision). The third question is whether foreign production should be carried out under ownership and organizational control of the firm or through alternative modes such as licensing or strategic alliance (Internalization) decision. The model also referred to as the OLI model tries to simplify the entry mode decision. There are several other factors for the choice of entry mode, which come into play and are not captured by the OLI model. Harzing²⁰ finds such factors as the firm's international business strategy, its experience of the political, economic, regulatory, institutional, and cultural aspects of the host country. Overall CBMAs present an interesting opportunity to enter new markets but they definitely come at a high price. The sources and boundaries to value creation especially related to cross border transactions will be treated in more detail later on. However there are other ways to grow outside the home country, which in some cases make more sense. The next chapter will present strategic alliances as an alternative to CBMAs.

¹⁸ “ Japan; Land of the Hostile Takeover? “, Business Week, April 10th 2000

¹⁹ J.H. Dunning, “ The Eclectic Paragram as an Envelope for Economic and Business Theories of MNE Activity “, International Business Review, Vol 9, 2000, p163-190

²⁰ A.W. Harzing, “ Acquisitions Versus Greenfield Investments: International Strategy and Management of Entry Modes “, Strategic Management Journal, Vol 23, 2002, p211-227

2.3. Strategic Alliances as an Alternative to M&A

Sudarsanam²¹ notes that M&A often fail to deliver the desired results, thus firms try alternative means to reach the same objectives. In recent years strategic alliances have become increasingly popular as they spare the costs of an outright acquisition and are more flexible compared to M&A. They can take a variety of forms ranging from simple purchase and sale agreements to the creation of complex legally distinct entities (e.g Joint Ventures etc..). Dussauge, Garrett and Mitchell²² define strategic alliances as an arrangement between two or more independent companies that choose to carry out a project or operate in a specific business area by coordinating the necessary skills and resources jointly rather than operating on their own or merging their operations. The motivations for strategic alliances are similar to that of M&A mainly cost reductions, technology sharing, product development, market access and access to capital. A diligently planned strategic alliance can be a less expensive alternative to a merger and still achieve the same goal. Despite that strategic alliances also have critical elements and barriers to be overcome. Regarding the economic logic of strategic alliances Doz and Hamel²³ identify two strategic imperatives; “racing for the world” and “racing for the future”. “Racing for the world” implies that a firm attempts to draw a maximum of extant global opportunities, which it can not achieve alone and thus forms an alliance. A firm “ racing for the future” aims to create new products, skills, resources and competencies with the alliance partner. Both approaches have in common that they are motivated by gaining competitive capabilities through cooperation; leveraging each other’s co-specialized resources; and gaining competence through internalized learning from each other. Koza and Lewin²⁴ take a similar approach and define two basic motivations: exploitative and exploratory. Similar to “racing for the world” exploitative alliances seek to leverage partner resources and capabilities to enhance revenues or reduce costs. The exploratory alliance similar to “racing for the future” aims to create new opportunities, resources, markets, products and technologies. Based on these two core motives Koza and Lewin formulate three basic kinds of strategic alliances:

²¹ Sudi Sudarsanam, “Creating Value from Mergers and Acquisitions – The Challenges “, Prentice Hall International, 2003, p217-238

²² O. Dussauge, B. Garrette, W. Mitchell, “ Learning from Competing Partners: Outcomes and Durations of Scale and Link Alliances in Europe, North America and Asia “, Strategic Management Journal, Vol 21, 2000, p99-126

²³ Y.L. Doz, G. Hamel, “ Alliance Advantage: The Art of Creating Value Through Partnering “, Cambridge, MA: Harvard University Press, 1998

²⁴ M.P. Koza, A. Lewin, “ The CO-Evolution of Strategic Alliances “, Organization Science, Vol 9, 1998, p 255-264

- **Learning Alliances:**
In learning alliances the partners primarily have an exploration intent. Such alliances can be about markets, core competencies or technologies.
- **Business Alliances:**
The primary goal being exploitation the most common objective is revenue enhancement. Such alliances are typically structured as equity Joint Ventures
- **Hybrid Alliances:**
Hybrid Alliances combine both elements exploitative and exploratory. Partners seek to simultaneously maximize opportunities from leveraging existing capabilities and assets as well as new value creation through mutual learning.

The case study of Renault and Nissan will provide a practical insight on these motives. Important to note is that the economic and strategic rationale behind the alliance determines its legal form, management and organizational structure.

Despite the advantages of strategic alliances there also exist potential risk factors. According to Sudarsanam the most important risk factor are diverging strategies among alliance partners, since the future evolution of alliances are sometimes uncertain and hard to predict. Such problems might arise when one partner has fully exploited the learning potential and thus has an incentive to leave the alliance. Koza and Lewin²⁵ support this notion by identifying the root cause of alliance failure to be the failure to grasp and articulate its strategic intent, followed by the lack of recognition of the close interplay between the overall strategy of the company and the role of the alliance in that strategy. Another potential risk is to become too dependent on the alliance partner. This becomes especially problematic when the alliance partner goes out of business or wants to pursue new relationship. In this context Case, Lee and Martin²⁶ find that alliance partners, especially in the case of Joint Ventures, run the risk of value losses (in terms of competences and know –how) when one partner becomes a takeover target. It should have become clear that M&A and strategic alliances share several similarities and can often be seen as alternative ways to achieve the same strategic goals. The main advantage of alliances lies in reduced cost and risk. Additionally as compared to M&A with an alliance partners have the possibility to selectively access only certain target capabilities. M&A on the other hand are not as prone to diverging management

²⁵ Koza and Lewin, *ibid*.

²⁶ S.A. Case, S. Lee, J.D. Martin, “ Joint Venture and Expropriation of Intellectual Capital “, Texas A&M University Working Paper, 2002

styles, corporate strategy and corporate culture. Where a firm wants to protect its own competencies from being copied by alliance partners or prefers to throw a proprietary ring fence around future developments of competitive advantages and wants to ensure the long term commitment of the partner, an M&A should be preferred to an alliance.

3. Value Creation in Horizontal Mega Mergers

Value Creation in horizontal mega merger depends on a multitude of factors, many of them sharing the same rationale that applies to normal mergers. However there are certain factors which should be considered in more detail and be especially related to mega mergers. This chapter will start with the sources and limits for value creation in horizontal mega mergers, followed by drivers of value creation especially with respect to mega mergers. Since there is no empirical study exclusively focusing on mega mergers I will apply findings from studies, which have a similar focus on large transactions. Where appropriate I will support my argumentation with empirical findings and further provide a short overview of possible measures for value creation in this context.

3.1. Sources and Limits to Value Creation in Horizontal Mega Mergers

According to Sudarsanam²⁷ horizontal mergers often characterize industries and markets whose products are in the mature or declining stages of the product life cycle. In most cases there is only a small number of large competitors and the growth rates in these markets are relatively low, which are often related to excess capacity, and thus encourages firms to either find new ways to growth or to achieve cost efficiencies through consolidation. Such cost efficiencies may be achieved through the already mentioned economies of scale, scope and learning. This framework also and perhaps even to a greater degree applies to mega mergers. I believe that this especially accounts to mega mergers as the required financial strength for such transactions will most likely be the case in mature industries with sufficient cash reserves and asset base. With respect to cross border M&A only large multinational firms have the resources and capabilities to operate on a global level, which already poses a certain pre condition on firm size. The main sources for value creation within this framework can be divided into three basic categories:

²⁷Sudi Sudarsanam, “Creating Value from Mergers and Acquisitions – The Challenges “, Prentice Hall International, 2003, p97-123

- **Revenue Enhancement:**
Either through increased market power; Network externalities, where network externalities exist when the value of a product to the individual customer depends on the number of other users of the product; and the leveraging of each others marketing resources and capabilities
- **Cost Savings:**
Cost savings from the reduction of excess capacity; Scale and Scope economies in production, marketing, sales and distribution, branding, R&D and logistics; Learning economies
- **New Growth Opportunities:**
Creation of new capabilities and resources, products, markets and processes

Apart from these categories there is another main source of value creation coming from the resource based view. A successful redeployment of the firm's resources and capabilities can be the main source for long term value creation but also is the hardest to achieve. Synergies and certain cost reductions from scale and scope may only be achieved through redeployment. Capron et al²⁸ investigated 253 horizontal mergers in the US and Europe between 1988 and 1992. Their findings imply that the most commonly redeployed resources and capabilities concern R&D, manufacturing (e.g. production cost structure), marketing (brand management, distribution channels etc ..), managerial (management skills) and financial resources. Their findings further indicate that on average the acquirer redeploys more resources and capabilities than the target. Transfers of specialized resources such as transfers in R&D and manufacturing are more similar in magnitude between acquirer and target than transfers of generalized resources such as managerial and financial.

The limits and barriers to value creation in horizontal mega mergers are manifold and often case dependent. In order to provide a suitable framework for the case studies I will concentrate on the specific barriers to cross border transactions, which concern the majority of mega mergers in general and especially those outside the US. Sudarsanam²⁹ identifies four dimensions regarding barriers to foreign transactions:

²⁸ L. Capron, P. Dussauge, W. Mitchell, " Resource Redeployment Following Horizontal Acquisitions in Europe and North America, 1988-1992 ", Strategic Management Journal, Vol 19, 1998, p631-661

²⁹ Sudi Sudarsanam, "Creating Value from Mergers and Acquisitions – The Challenges ", Prentice Hall International, 2003, p205

- **Structural Barriers:**
Structural barriers mainly concern differences in the statutory and regulatory environment. Statutory problems may arise with respect to different governing bodies or the role of workers unions etc...Regulatory issues mainly concern antitrust regulations and rules of stock exchange and professional self-regulatory bodies

- **Technical Barriers:**
Technical barriers concern managerial issues such as problems related to the removal of two-tier boards, share restrictions or shares with differential voting rights etc..

- **Information Barriers:**
Related to information asymmetries in accounting information and compliance of accounting rules. Regulatory procedures may also be unknown or unpredictable

- **Culture and Tradition:**
A very important but often underestimated issue which will be treated in more detail later on. I find that the most common problems are related to the general resistance to M&A especially among target employees, differences in compensation and overall business culture

3.2. Key Drivers for Value Creation in Horizontal Mega Mergers

This chapter highlights specific factors, which seem to have a big impact on value creation. The information is drawn from various sources and should thus capture the most common drivers for value creation, however this is not a recipe for success applicable to any mega merger. Some of the findings were based on two empirical studies, which most likely meet the size requirements of mega mergers and should thus provide useful information. The first study from Sirower and Sahni³⁰ consists of a sample of 302 deals announced between July 1995 and August 2001 with an average acquirer market cap. of USD 14.2 billion and average target market cap. of USD 5.5 billion. The second study by Hazelkorn, Zenner and Shivdasani³¹ uses a sample of 1547 deals over the period from January 1990 to January

³⁰M.L. Sirower, S. Sahni, "Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards", Journal of Applied Corporate Finance, Vol 18 Nr 3, 2006

³¹T. Hazelkorn, M. Zenner, A. Shivdasani, "Creating Value With Mergers and Acquisitions", Journal of Applied Corporate Finance", Vol 16 Nr2-3, 2004

2002. The sample concerned foreign and domestic acquisitions of US acquirers with a minimum transaction value of USD 250 mn. representing at least 5% of the acquirers enterprise value. I still include findings from other studies, which do not meet the size criterion, but which I believe also account for mega mergers.

3.2.1. Delivering Results after a Good Start Pays Off

Sirower and Sahni³² find that deals that are perceived positively by investors and meet the projected objectives in the beginning, in the long run significantly outperform deals that start off poorly. In the year following the announcement, acquirers whose deals were met initially with a negative investor reaction, and continued to be perceived negatively, had an average return of -24,9% whereas deals with a favorable response returned an average return of 33.1%. This implies that early significant performance wins signal to the market that the acquirer has a trackable plan. This information is rewarded by the shareholders and thus creates additional value.

3.2.2. Acquisition Premiums

An important determinant of merger success or failure is the amount of acquisition premium, since high premiums present a considerable financial burden, which in some cases are hardly recoverable by cost savings and revenue enhancements. In Sirower's and Sahni's³³ sample the average premium amounted to 36%. The initially negative group paid an average premium of 38.4% and the positive group paid 30.7%. Basically the same finding was intact one year after the transaction. This finding is also true for the long run with the persistent negative performers having paid an acquisition premium of 40.5% and the persistent positive performers only having paid 25.8%. Thus acquisition premiums have a significant impact on value creation.

3.2.3. Financing Structure

The Impact of the financing structure is highlighted in both studies and further reaffirmed by numerous sources in M&A literature. The finding is that cash deals although less common clearly outperform stock financed deals. Hazelkorn et al³⁴ find that the short term impact is moderate with a median short term excess return of 0.9% in cash financed deals compared

³² M.L. Sirower, S. Sahni, "Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards", Journal of Applied Corporate Finance, Vol 18 Nr 3, 2006, p84

³³ M.L. Sirower, S. Sahni, "Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards", Journal of Applied Corporate Finance, Vol 18 Nr 3, 2006, p84

³⁴ T. Hazelkorn, M. Zenner, A. Shivdasani, "Creating Value With Mergers and Acquisitions", Journal of Applied Corporate Finance, Vol 16 Nr2-3, 2004, p85

to -1.9% for stock transactions. The true impact is revealed in the long term, where within two years cash financed acquirers outperform their industry peers by 4.3% while stock financed acquirers underperform their peers by -5.2%. These findings are also consistent with Sirower and Sahni³⁵. Cash acquisitions are perceived more favorably for several reasons. Hazelkorn et al³⁶ find that a cash acquisition signals the acquirer's confidence to replenish its cash balance. Cash acquisitions often involve issuing of debt, thus the resulting pressure to repay the debt puts a significant incentive to closely manage the integration process and thus encourage the realization of synergies. Another common finding is that stock financed acquisitions provide an incentive for acquirers with an overvalued stock price to pay for the acquisition in equity. This is consistent with the finding of Sudarsanam and Mahate³⁷.

3.2.4. Foreign vs. Domestic Acquisitions

The sample of Hazelkorn et al³⁸ suggests that foreign acquisitions create more value than domestic acquisitions, this is at least the case for US acquirers. The short term excess return was 0.8% for foreign acquisitions compared to -0.6% for domestic acquisitions. The median long term excess return for foreign acquisitions amounted to 8.4%. Despite the increased complexity especially regarding cultural, social and post merger integration issues, foreign acquisitions created more value in this sample. The general opinion on this factor is mixed as other sources suggest that it is more beneficial to stick to the home market.

3.2.5. Removing Overcapacity in Mature Industries

According to Mamdani and Noah³⁹ the removal of excess capacities in mature industries is a key value driver. Within such a framework especially cost savings but also other synergies may be achieved more easily. I think that this factor has in fact had a great impact on several mega deals, while the ones that effectively rationalized their operations following the merger were able to create sustainable value.

³⁵ M.L. Sirower, S. Sahni, "Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards", *Journal of Applied Corporate Finance*, Vol 18 Nr 3, 2006, p84-85

³⁶ T. Hazelkorn, M. Zenner, A. Shivdasani, "Creating Value With Mergers and Acquisitions", *Journal of Applied Corporate Finance*, Vol 16 Nr2-3, 2004, p85

³⁷ S. Sudarsanam, A.A. Mahate, "Glamour Acquirers, Method of Payment and Post Acquisition Performance: The UK Evidence", *Journal of Business and Finance Accounting*, Vol 30, 2003, p324

³⁸ T. Hazelkorn, M. Zenner, A. Shivdasani, "Creating Value With Mergers and Acquisitions", *Journal of Applied Corporate Finance*, Vol 16 Nr2-3, 2004, p87

³⁹ M. Mamdani, D. Noah, "Pathways to Success in M&A", *Journal of Applied Corporate Finance*, Vol 16 Nr 4, 2004, p78

3.2.6. Purchasing R&D and New Technology Platforms

Mamdani and Noah⁴⁰ believe that mergers are an effective tool to purchase new technologies and gain access to new sources of R&D. In my opinion if firms are able to integrate and consequently redeploy these resources and capabilities they will likely create sustainable value. The question is if such new technologies can not be achieved otherwise e.g. through internal R&D. In my opinion especially the past mega mergers in the pharmaceutical industry were partly inspired by this rationale.

3.2.7. Post Merger Integration

In my view effective post merger integration (PMI) probably has the greatest impact on sustainable long term value creation. This is especially true for cross border transactions as the cultural differences are an additional integrative barrier. Norburn and Schoenberg⁴¹ find that 90% of all acquisitions rated as not meeting their original objectives experienced major unforeseen difficulties in respect to cultural differences. Although the issue is addressed in most of the literature, there is only very little research actually focusing on PMI. Harbeck, Kröger and Träm⁴² elaborated rules for successful PMI based on a global survey conducted by A.T. Kearney. The survey respondents, mainly consisting of top executives from large multinationals, were asked to identify from three phases (phase 1: strategy development and due diligence; phase 2: negotiation and closing; phase 3: PMI) the one with the greatest failure risk. Interestingly 53% of respondents stated that PMI bears the greatest failure risk, followed by 30% for phase 1 and 17% for phase 2. The rules for successful post merger integration are as follows:

- Vision:

Merger partners often lack a clear strategy of what the merger is up to. Cost savings and synergies are the most common response and are often rewarded by the stock market with short term gains. In order to achieve long term value creation a sound strategy is imperative. Only very few mergers combine both aspects and have a proper emphasis on the later

⁴⁰ M. Mamdani, D. Noah, “ Pathways to Success in M&A “, Journal of Applied Corporate Finance, Vol 16 Nr 4, 2004, p78

⁴¹ D. Norburn, R. Schoenberg, “ European Cross Border Acquisitions: How Was It For You “, Long Range Planning, Vol 27 Nr4, 1994

⁴² M.M Habeck, F. Kröger, M.R. Träm, “ After the Merger: Seven Rules for Successful Post Merger Integration “, Financial Times/ Prentice Hall, 2000

- **Leadership:**
The issue of leadership is a delicate one and firms tend to be slow in assigning it. The result is chaos which degenerates into the survival of the fittest. This wastes time and resources but more importantly creates uncertainty and demotivation among the workforce

- **Growth:**
Firm still consider growth to be an overriding merger rationale but focus too much on cost synergies. While being successful in the short term, after a while firms tend to switch back to the accustomed operating mode before the merger in the long run and disregard the objective of growth

- **Early Wins:**
Firms often overestimate the willingness of the workforce to buy into the merger as soon as it is announced. It is very likely that the workforces of both firms will initially reject the merger. Thus buy-in can not be assumed, it has to be earned. If early wins – such as quick, positive and tangible results – are achieved and communicated properly, people will respect the progress and change to a more favorable attitude

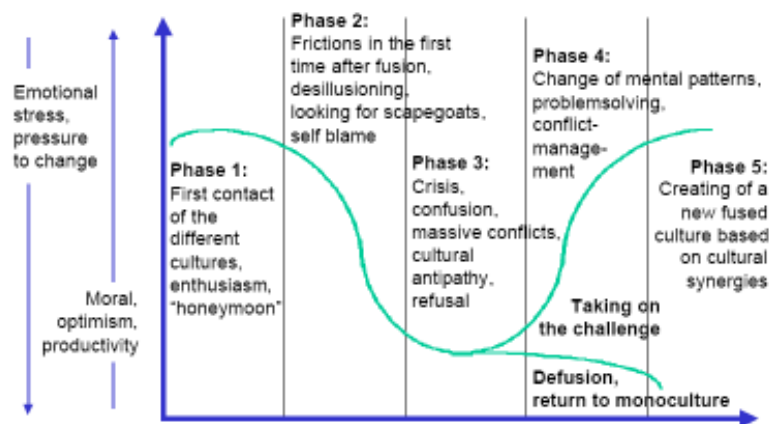
- **Culture:**
Firms tend to neglect that cultural barriers exist and that it takes considerable time to break them down. This is especially true for cross border transactions but also accounts for domestic transactions where different corporate cultures have to be overcome

- **Communication:**
Despite the placement of communication managers to enhance integration, the taken measures are often insufficient. Active involvement is essential to create a sense of fair play and openness.

- **Risk Management:**
Despite the numerous risks related to mergers, only very few firms consider and manage them properly. Consequently risks turn into threats and ultimately lead to failure

Morosini⁴³ mainly concentrates on the social aspects of PMI. He promotes the fast establishment of a connective tissue between the joining firms. This tissue will be dependent on the desired form of merger. It will be a lot closer to the acquirers organizational tissue in the case of consolidating acquisitions, whereas it will be a substantially new corporate tissue in the case of a merger of equals. Morosini stresses that it is important to build such a corporate tissue as fast as possible. S. Nakamura⁴⁴ has come up with a model reflecting the different stages of post merger integration until such a common corporate tissue is finally realized or remains unachievable and thus most likely results in a failure:

Figure 1: The Different Stages of Post Merger Integration



Source: S. Nakamura, "Reflections on the Importance of Cross Cultural Management Strategy for Companies Promoting Globalization"

As one can see in the graph PMI is a complex process, which can hardly be implemented at once. It takes considerable effort, willingness and sacrifice to make PMI happen. In order to encourage successful PMI and the creation of the previously mentioned corporate tissue, the exchange of existing and the development of new social capabilities and a common stock of organizational knowledge is necessary. In this context Morosini defines five key social capabilities, which are very similar to the rules of successful PMI by Harbeck et al..

⁴³ P. Morosini, U. Steger, "Managing Complex Mergers", Financial Times/ Prentice Hall, January 2004

⁴⁴ S. Nakamura, "Reflections on the Importance of Cross Cultural Management Strategy for Companies Promoting Globalization"

3.3. Practical Guidance on Pre Merger Evaluation, Performance Measures and Empirical Findings

3.3.1. Pre Merger Evaluation

Sirower and Sahni⁴⁵ specially investigate expected synergies and their impact on value creation for shareholders. This is not surprising since most of the firms justify the merger decision with synergies. In this context the common belief is that the paid premium will be recovered by the expected synergies. The purchase price of an acquisition is often determined by the pricing of other comparable acquisitions rather than a diligent assessment of the true price, taking into account where, when and how management may drive real performance gains. Sirower and Sahni⁴⁶ thus have come up with a simple tool to assess the relative magnitude of synergy risk referred to as shareholder value at risk (SVAR). SVAR is calculated by the premium paid for the acquisition divided by the market value of the acquiring company prior to announcement. In simple terms SVAR indicates how much of the firm's value is at risk in case no synergies are realized. Thus the higher the index the higher the SVAR. Acquirers may lose even more than the premium, in this case SVAR underestimates risk. When applying SVAR one also has to account for the difference in method of payment. The main difference is that in cash transactions, the acquiring shareholders take on the entire risk of a shortfall in synergies and consequently the loss of the acquisition premium. In stock transactions that risk is also spread among shareholders of the target. It is not surprising that many acquisitions have been paid in stock. But there is a big catch to it, which some investors will be aware of. As already pointed out the best time to issue new shares for example to finance an acquisition is when they are overvalued. Furthermore if the management of the acquirer were truly confident about the merger, why would they share their future benefits by paying with stock. Thus to wary investors paying with stock is a signal of lower confidence than if a deal was financed with cash.

On the basis of SVAR Sirower and Sahni present a simple earnings model for the target, which captures a combination of cost savings (cost synergies) and revenue enhancements (revenue synergies) that would justify a given premium. This does not replace a proper DCF valuation but provides a practical approach to assess a merger decision. This approach also allows for a sanity check of the post merger integration business plan.

⁴⁵ .L. Sirower, S. Sahni, “ Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards “, Journal of Applied Corporate Finance, Vol 18 Nr 3, 2006, p87-90

⁴⁶ M.L. Sirower, S. Sahni, “ Avoiding the Synergy Trap: Practical Guidance on M&A Decisions for CEOs and Boards “, Journal of Applied Corporate Finance, Vol 18 Nr 3, 2006, p87-90

3.3.2. Performance Measures

Cartwright and Schoenberg⁴⁷ state that the selection of appropriate performance metrics is of particular relevance in inter-disciplinary fields such as mergers and acquisitions, where diverse origins have led to the adoption of a broad range of performance measures within contemporary research. I find that the most common performance measures for assessing value creation in normal and mega mergers are based on financial measures such as excess stock returns also referred to as cumulative abnormal returns (see Hazelkorn et al, Sirower and Sahni etc..), EPS growth and accounting performance. While these performance measures are rather objective, Schoenberg also examines the use of subjective performance measures, such as management self reports, especially when considering value creation in mergers from an organizational or strategic management perspective:

- **Managers' Subjective Assessments:**

Executives are asked to rate the extent to which organizational objectives behind the acquisition have been reached along specified dimensions. Additionally the managers are continuously asked to rate their satisfaction with overall acquisition performance to establish convergent validity (See also Dess and Robinson⁴⁸). Brock⁴⁹ further includes the view of the acquired firm's executives. The data is usually gathered three to five years after the acquisition and thus provides an ex-post assessment. The main advantage of this measure is that it allows for a composite view of the transaction and that it can be applied to any transaction and also when there are no objective measures available. The main drawback, as noted by Lubatkin and Shrieves⁵⁰, is the fact that it can be subject to managerial bias and that it is dependent upon accurate retrospective recall of respondents (See also Miller et al.⁵¹)

⁴⁷ S. Cartwright, R. Schoenberg, "Thirty Years of Mergers and Acquisitions Research: Recent Advances and Future Opportunities" *British Journal Of Management*, Vol 17, 2006, p S1-S6

⁴⁸ G. Dess, R. Robinson, "Measuring Organizational Performance in the Absence of Objective Measures: The Case of the Privately Held Firm and Conglomerate Business Unit", *Strategic Management Journal*, Vol 5, 1984, p265-273

⁴⁹ D. Brock, "Multinational Acquisition Integration: The Role of National Culture in Creating Synergies", *International Business Review*, Vol 14, 2005, p269-288

⁵⁰ M. Lubatkin, R. Shrieves, "Towards Reconciliation of Market Performance Measures to Strategic Management Research", *Academy of Management Review*, Vol 11, 1986, p497-512

⁵¹ C. Miller, L. Cardinal, W. Glick, "Retrospective Reports in Organizational Research: A Reexamination of Recent Evidence", *Academy of Management Journal*, Vol40, 1997, p189-204

- **Expert Informants' Subjective Assessment:**

A variant of the above based on an expert opinion. As Haywood⁵² finds experts typically rely on direct data from stock market analysts or as Datta and Grant⁵³ find from secondary information from financial press reports and commentaries. This approach eliminates the problem of management bias and provides a more independent assessment

- **Divestment:**

Montgomery and Wilson test whether acquired firms have been divested following an acquisition, thus expressing management's dissatisfaction with the acquisition performance. As Porter⁵⁴ notes the underlying assumption is that firms are very unlikely to close down successful businesses except in very few distinct cases. Divestment is a very simple measure with low information requirements. However divestments may also indicate profit taking from successful restructuring (See Kaplan and Weisbach⁵⁵) or as Capron et al⁵⁶ point out an appropriate resource configuration in response to environmental changes

3.3.3. Empirical Findings

This section provides an overview of empirical findings drawn from various sources. The majority of the findings are consistent with the literature although there are some interesting outliers. The following subsection presents empirical findings regarding the direct impact of transaction size on value creation, which is a central question of the thesis. The evidence however is mixed, which should provide an incentive for further research.

3.3.3.1. Mixed Evidence on Transaction Size

Hazelkorn et al.⁵⁷ investigate the impact of transaction size on value creation and find that in their study there is a small but statistically significant relationship between transaction size and short term performance, where large transactions underperform smaller transactions.

⁵² M. Hayward, "When Do Firms Learn From Their Acquisition Experience? Evidence From 1990-1995", *Strategic Management Journal*, Vol 23, 2002, p21-39

⁵³ D. Datta, J. Grant, "Relationships Between Type of Acquisition, the Autonomy Given to the Acquired Firm, and Acquisition Success: An Empirical Analysis", *Journal of Management*, Vol 16, 1990, p29-44

⁵⁴ M. Porter, "From Competitive Advantage to Corporate Strategy", *Harvard Business Review*, Vol 65 / 3, 1987, p43-59

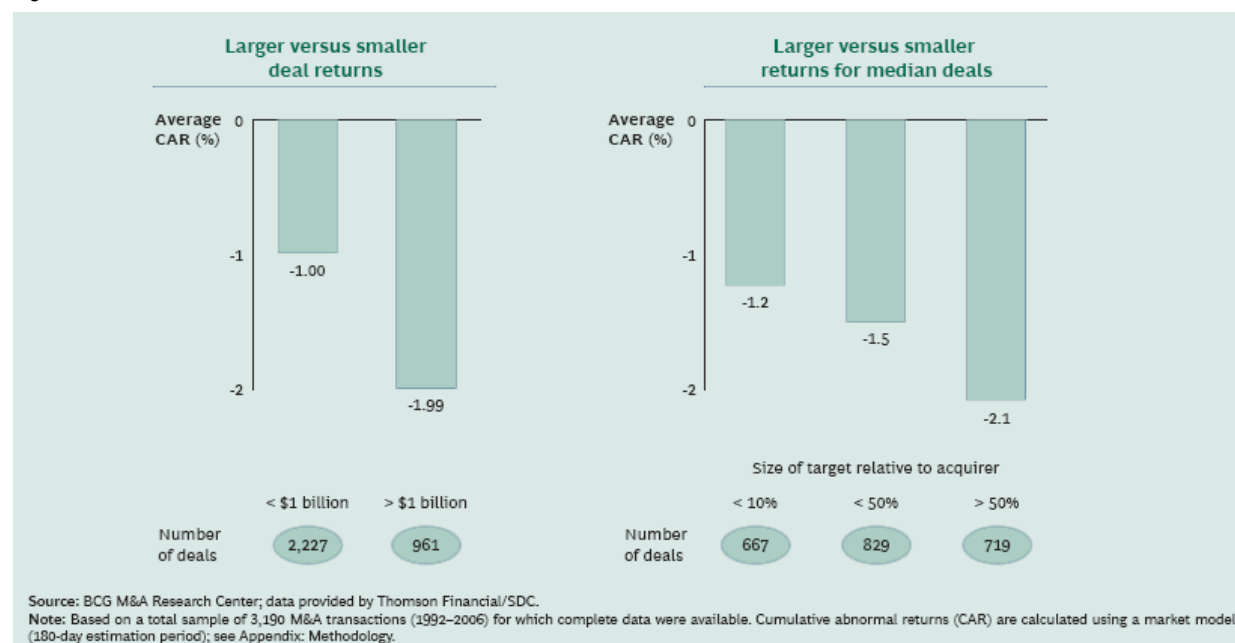
⁵⁵ S. Kaplan, M. Weisbach, "The Success of Acquisitions: Evidence from Divestitures", *Journal of Finance*, Vol 47, 1992, p107-138

⁵⁶ L. Capron, W. Mitchell, A. Swaminathan, "Asset Divestiture Following Horizontal Acquisitions: A Dynamic View", *Strategic Management Journal*, Vol 22, 2001, p817-844

⁵⁷ T. Hazelkorn, M. Zenner, A. Shivdasani, "Creating Value With Mergers and Acquisitions", *Journal of Applied Corporate Finance*, Vol 16 Nr2-3, 2004, p87

However there is no statistic evidence that the same is true for the long term. Another interesting aspect in this respect is the relative deal size, meaning the size of the deal in proportion to the size of the company. Contrary to expectations Bieshaar et al.⁵⁸ find that relative deal size does not matter. This is surprising because one might expect that a big deal can create greater synergies. Bieshaar argues that the market is already skeptical about the value creation potential in M&A and thus compensates the greater risk of value destruction for the greater potential synergies of a large deal. A more recent report by BCG contradicts with the findings of Hazelkorn et al. and Bieshaar et al.. The report is based on a sample of 3,190 M&A transactions during the period of 1992 to 2006. In the report K. Cools et al.⁵⁹ note that large deals above USD 1 bn. nearly destroy twice as much value as smaller transactions below USD 1 bn.. They believe that this reflects the increased difficulties with integrating large targets. Regarding relative transaction size, the sample indicates that deals destroy significantly more value as the size of the target increases relative to the acquirer. Targets representing more than 50% of the acquirer destroy almost twice as much value as targets that are less than 10% of the acquirer, as is indicated in the graph below.

Figure 2: Relative Transaction Size



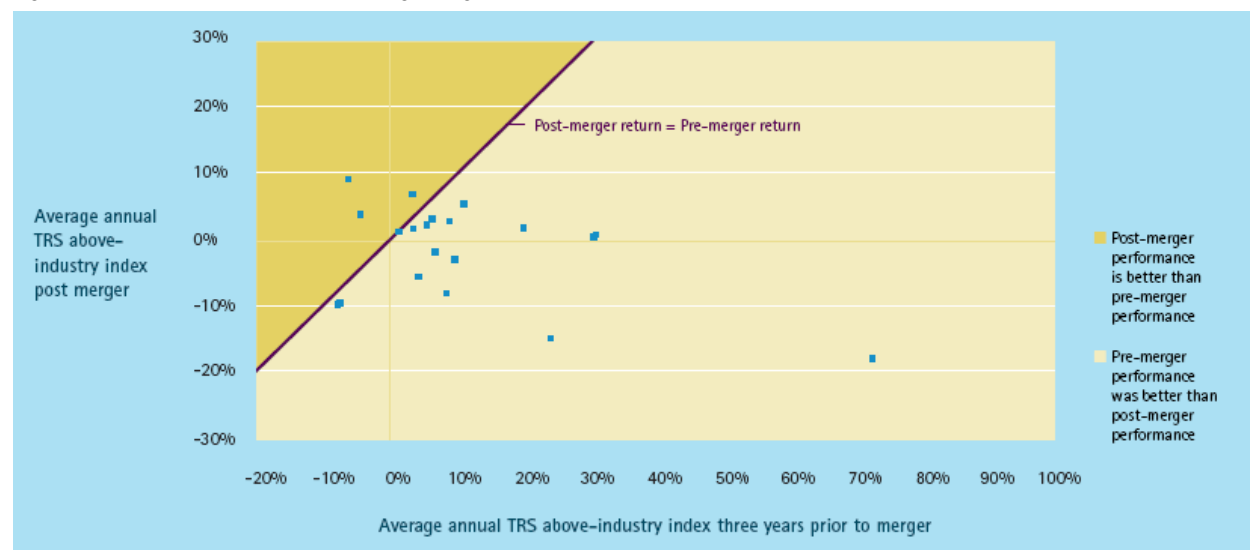
Source: K. Cools, J. Gell, J. Kengelbach, A. Roos, "The Brave New World of M&A: How to Create Value From Mergers and Acquisitions", Boston Consulting Group, July 2007, p 19

⁵⁸ H. Bieshaar, J. Knight, A. v. Wassenaer, "Deals That Create Value", The McKinsey Quarterly, Vol 1, 2001

⁵⁹ K. Cools, J. Gell, J. Kengelbach, A. Roos, "The Brave New World of M&A: How to Create Value From Mergers and Acquisitions", Boston Consulting Group, July 2007, p 19

Only Few Mega Mergers Create Additional Shareholder Value. Based on a study by Accenture on the twenty largest global mergers during the period from 1998 to 2004, Nunes and Breene⁶⁰ compare pre and post merger shareholder returns. Pre merger returns are the annual return of acquirer shareholders above the industry index three years prior to the merger. The post merger returns represent the average annual returns for shareholders of the merged firm three years after the merger. As the graph below indicates during this specific period and as for this sample, most mega mergers were not able to exceed the pre merger shareholder returns, which implies that the mergers did not create additional value at least from a shareholder point of view. However I believe that the post merger time frame of three years might be too short as the implementation especially in large transactions takes considerably more time and thus I believe that it might take longer for mega mergers to effectively translate value creation into shareholder returns.

Figure 3: Shareholder Value Creation in Mega Mergers



Source: Tim Breene, Paul F. Nunes, "Is Bigger Always Better", Accenture Outlook 2004 Nr.3, p 24

⁶⁰ Tim Breene, Paul F. Nunes, "Is Bigger Always Better", Accenture Outlook 2004 Nr.3

3.3.3.2. Other Empirical Findings Related to Value Creation

- Acquirer shareholders loose: Both studies confirmed that on average shareholders of the acquiring firm loose especially around announcement. Sirower and Sahní find that the average return to shareholders of the acquiring firm is - 4.1% with 64% of deals perceived negatively and a positive market response of 36% of deals. One year later shareholder returns are almost identical with -4.3% and 61% of acquiring firms lagging their industry peers. What is also consistent with most M&A studies is the wide variance of returns. Around announcement acquirer returns range from - 40.1 % to 26.1% and more significantly for the one year period from - 151% to 281.5%. Interestingly in the study by Hazelkorn et al acquirer shareholder only loose - 0.5 to - 0.7% around announcement. They further find that during the period of two years after announcement acquirer shareholders actually gain 0.5%, however there are large fluctuations in the longer run. While the first study by Sirower and Sahní seems to be consistent with most other studies, Hazelkorn et al. have somewhat surprising results. Due to the fact that the acquisition volume in Hazelkorn et al. was significantly lower than in Sirower and Sahní's study one could conclude that the larger the transaction, the more critical the shareholders reaction. However I believe that this is not the case here, although further investigation in that direction would be valuable for future studies
- Target shareholders win: In Sirower and Sahní's study sellers realized an average return of 20% from the week before deal announcement to the week after. This finding is consistent with almost any M&A study. For example Goergen and Renneboog⁶¹ find an immediate abnormal return of 9% upon announcement and 23% from two months before the announcement till announcement day
- Initial Reactions Are Persistent: Sirower and Sahní's study reveals that most initial reactions tend to be persistent over time and are thus indicative of future returns. Deals that started off with a negative reaction (- 9.2%) almost remained the same negative return one year after (-9.0%). The same accounts for positive performers with an initial reaction of 5.7% and a positive return of 4.9% after one year. 67% of all negatively perceived deals were still negative after a years while only 50% of positive

⁶¹ M. Goergen, L. Renneboog, " Shareholder Wealth Effects of European Domestic and Cross-Border Takeover Bids ", European Financial Management, Vol 10 Nr 1, 2004, p38

deals remained positive. Thus a goof start does not guarantee long term success but a bad start is even harder to reverse

- Method of Payment Matters: As already pointed out in the section on value drivers, there is a significant difference between a payment in equity, cash or a combination of both. This finding is also consistent with the vast majority of studies
- Cross Border M&A Underperforms Domestic M&A : The majority of empirical evidence suggests that Cross Border Acquisitions are more risky and create less value. R. Schoenberg⁶² for example finds that cross border M&A significantly underperform domestic M&A, with neutral to highly unsatisfactory outcome for cross border transactions in 54% of all cases compared to only 39% for domestic transactions. This result confirms earlier findings of a study based on shareholder abnormal returns from Aw and Chatterjee⁶³ and is consistent with the overall empirical evidence
- Sales Growth as the Main Determinant for Superior Value Creation: A recent BCG report⁶⁴ on the main sources for Total Shareholder Return identified sales growth as the most important and sustainable factor in value creation. The study used a sample of the top performers of S&P 500 over a rolling period of one, three, five and ten years from 1987 through 2005. It should be noted that significant value creation will only occur under the smooth interaction of growth and the other dimensions of value creation. There are two ways to achieve sales growth either through organic growth or through M&A. In this context another BCG study⁶⁵ based on a sample of the stock market performance of 705 US companies during 1993 and 2002, finds that acquisitive growth clearly creates the most value. The sample was divided into three groups with highly acquisitive, mixed and organic growth strategy. Firms pursuing highly acquisitive strategies clearly outperformed the others with respect to value creation. Thus for me it comes intuitively that M&A especially for large companies in mature industries provides the more appealing solution than organic growth, as in

⁶² R. Schoenberg, "Cross Border Acquisitions: A Comparative Analysis", Cranfield School of Management, 2005, p 17

⁶³ M. AW, R. Chatterjee, "The Performance of UK Firms Acquiring Large Cross-Border and Domestic Takeover Targets", University of Cambridge, Research Paper in Mgt. Studies, July 2000

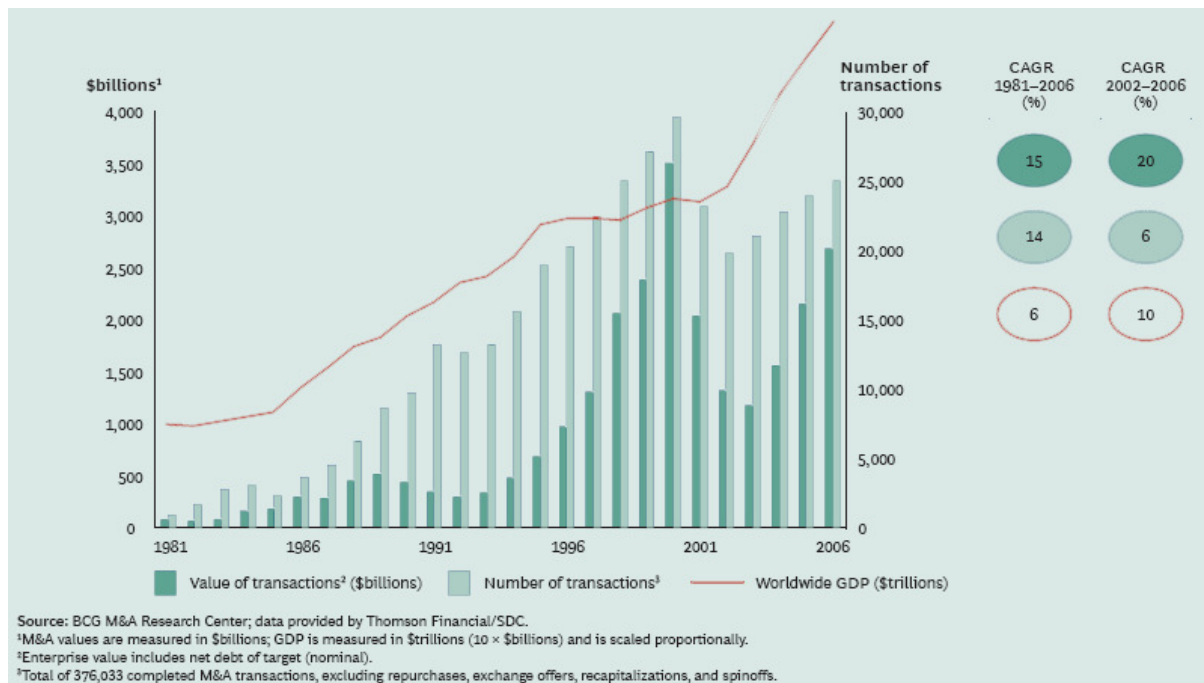
⁶⁴ E. Olsen, F. Plaschke, D. Stelter, "Spotlight on Growth: The Role of Growth in Achieving Superior Value Creation", 2006 Value Creators Report, Boston Consulting Group, September 2006, p 9

⁶⁵ K. Cools, K. King, C. Neenan, M. Tsusaka, "Growing Through Acquisitions: The Successful Value Creation Record of Acquisitive Growth Strategies", Boston Consulting Group, May 2004, p 8-9

many cases it comes at a lower overall cost. Additionally according to the empirical evidence provided by BCG, firms capable of performing and implementing M&A seem to be the most persistent value creators

- The number of mega mergers is significantly increasing: According to a Boston Consulting Group (“BCG”) report on M&A, K. Cools et al⁶⁶ find that the average value of deal has almost doubled to USD 110 mn. since 2002, which is almost at the all time record level of USD 140 mn. in 2000. This translates to a compound annual growth rate of 20% for the period of 2002 to 2006. The number of mega mergers with a transaction size above USD 1 billion has an 18% compound annual growth rate. In 2006 there were about 450 mega deals. K. Cools et al. partly relate the increasing size of deals to the strong trend towards consolidation and higher overall valuation levels. They further mention the beneficial environment of recent years such as low interest rates, high company profits and thus sufficient liquidity to finance acquisitions. The following graph depicts this development:

Figure 4: Increase in Mega Mergers



Source: K. Cools, J. Gell, J. Kengelbach, A. Roos, “ The Brave New World of M&A: How to Create Value From Mergers and Acquisitions “, Boston Consulting Group, July 2007, p 10

⁶⁶ K. Cools, J. Gell, J. Kengelbach, A. Roos, “ The Brave New World of M&A: How to Create Value From Mergers and Acquisitions “, Boston Consulting Group, July 2007, p 9

4. Case Study – Value Creation in Mega Mergers at the Example of Daimler Chrysler and Renault Nissan

4.1. Introduction

The auto industry provides a solid basis for analysis of consolidation as it is a very large – it accounts for up to 7% of the national income of developed countries - , capital and labor intensive industry, which is prone to the economic situation of various geographic regions around the globe. Consolidation may be achieved through several means, either through some form of limited cooperation as in alliance or mergers and acquisitions, with the latter being the main focus of this study. All forms of consolidation share a common feature, which is relinquishing autonomy or control in exchange for resources (such as new products, R&D, new market entry in formerly unexploited regions etc.), which are more costly to acquire in the absence of cooperation. The motivations behind consolidation and especially M&A are manifold and dependent on the single firm's competitive situation. However the following section tries to come up with an explanation of the rational behind M&A and alliances in the automotive industry. I will concentrate on the latest phase of consolidation in the late 90s, which has led to an unprecedented wave of mergers. As I have already outlined in the theoretical section, the car industry was among those industries which saw intensive consolidation. I chose two prominent cases for deeper analysis namely that of Daimler Chrysler and Renault Nissan. On the basis of these two I will try to elaborate and demonstrate the main factors and motivations behind the merger/alliance, the actual enforcement and long term implementation, and ultimately test whether the outcome has created or destroyed overall corporate value. From a retrospective view I find that Daimler Chrysler can be considered as a rather poor merger, which is consistent with the empirical evidence of M&A that about 50% of all mergers fail, whereas Renault Nissan is a shining example of value creation.

The Automotive Industry in the Late 90's

In his book “ Merging Traffic “ John A.C. Conybeare⁶⁷ addresses the situation of the automotive industry during the late nineties and in this context the arrival of yet another consolidation wave. This book provided the basis for the following chapter. During the

⁶⁷ John A.C. Conybeare, “ Merging Traffic: The Consolidation of the International Automobile Industry “, Rowman and Littlefield Publishers, Inc 2004

nineties about a dozen auto manufacturers have emerged to global players regarding geographic reach and size necessary to operate on a multinational level.

The Three big players in the U.S are GM, Ford and Chrysler, each of them already operating beyond their original boundaries. The concentration among U.S car manufacturers has experienced a significant increase since the end of World War 2. According to Conybeare⁶⁸ by 1920 there were as many as 169 car manufacturers in the U.S, however this number decreased to only three big manufacturers in 1960. Since then the situation has not much changed as we can still see the three main players on the market.

The situation was very similar in Europe, where for example the number of car manufacturers in Britain decreased from 200 in 1913 to one single government subsidized multibrand conglomerate British Leyland, comprising Britain's greatest car brands. Being unable to compete, due to low productivity and several other reasons, British Leyland was renamed to Rover and most of the conglomerates assets were either privatized or sold, with some of the most valuable brands such as Jaguar being sold to Ford and other manufacturers. By the end of the nineties major volume production of vehicles had diminished in the U.K leaving only very few niche market players behind.

In Germany, a country famous for its unique engineering skills, industry concentration was always high, which is probably due to its rather cartelistic industrial structure and the prevalence of bank financing, which can be considered rather discriminating to small firms. By the nineties there were two major volume producers Daimler and VW. BMW as a medium volume producer with slightly more than 1 million vehicles per year had established itself as a profitable premium producer.

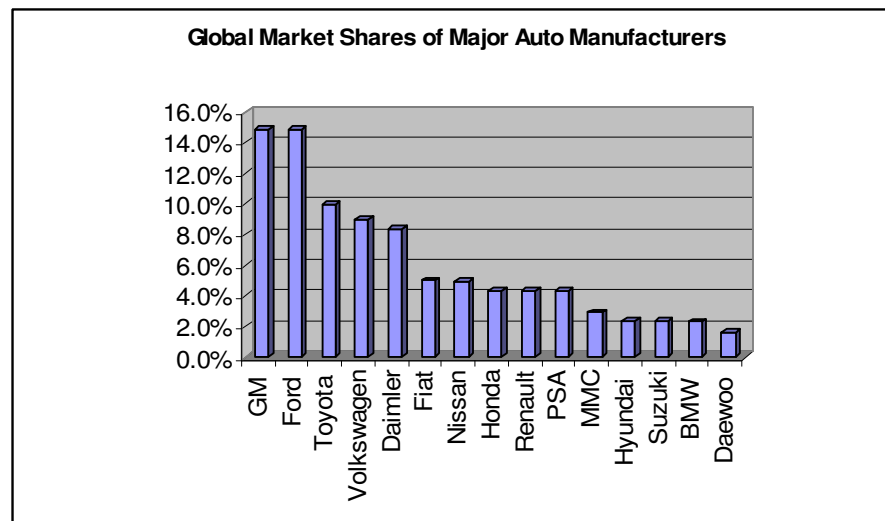
France as an early entrant to high volume production had also seen a significant increase in concentration where most of the small companies have been integrated to the remaining two large volume manufacturers Renault and Peugeot-Citroen (PSA).

In Italy most post war companies have been integrated to industrial conglomerate Fiat, which derived the majority of its revenues from car and car related manufacturing (42% of group revenue) and was Europe's largest carmaker for several years. The group held exclusive brands such as Ferrari, Maserati and Lancia.

⁶⁸ John A.C. Conybeare, " Merging Traffic: The Consolidation of the International Automobile Industry ", Rowman and Littlefield Publishers, Inc 2004, p 7

Japan with its unique organizational keiretsu form has always had a highly concentrated, rather oligopolistic automotive industry with the main players being Toyota, Nissan, Honda and Mazda. I believe that similar to Germany the economic and political environment seems to have favored such an industry set up. The following table provides an overview of the largest global carmakers as of 1998.

Figure 5: Global Market Share of International Car Manufacturers



Source: Renault Nissan (based on production figures from CCFA, December 1998)

Summarizing the history of the automotive industry, one can see a clear global tendency towards consolidation. While the first consolidation wave in the early 20th century was mainly driven by the economic perspective, thus economies of scale and scope, the merger wave of the late nineties can be seen as a combination of the economic perspective and the strategic perspective and in that respect especially the resource based view of competitive strategy. This trend peaked during the nineties pushing automotive groups to further grow and develop new resources and capabilities as a response to increased competition. According to Fujimoto and Heller⁶⁹ from 1990 to 1998 the number of globally active manufacturers decreased from 27 to 20 through M&A. Heller, Fujimoto and Mercer⁷⁰ find that the number of strategic alliances among American, European and Japanese firms increased from 36 to

⁶⁹ Takahiro Fujimoto, Daniel Arturo Heller, “ Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry “, University of Tokyo 2001,p2-4

⁷⁰ Daniel Arturo Heller, Takahiro Fujimoto, Glenn Mercer, “ The Long Term Value of Organizational Learning: Findings From the Automobile Industry “, Univ. of Tokyo, MMRC discussion paper No 52, p5-6

102. They say that one of the main reasons for consolidation lies in the common belief among automakers that they have to reach a certain size in order to reach economies of scale. As stated in Conybeare's book⁷¹ the minimum efficient economies of scale (MES) for a basic model (platform) are achieved with an annual output of 250.000 vehicles. Fujimoto and Heller assume that an internationally active car manufacturer should have at least four to five basic models (platforms) to cover the mass market, this amounts to an MES of 1 to 2 million vehicles per year. Beyond this level further efficiency improvements can be rather related to the firm's organizational capability than scale. The top 5 auto groups in the late nineties have already reached this barrier - Heller, Fujimoto and Mercer estimate that the top 5 groups account for 60% of global sales - , which suggests that output growth alone could not have caused the rapid consolidation. In fact I think it was intensifying competition, caused by the customers growing demand for lower prices along with higher reliability, the introduction of environmental and safety standards and overall technical innovation. Competition did not only intensify on a level directly observable to the customers but further on the operational level for example productivity, lead times and process capabilities. This multitude of factors was necessary to capitalize on global opportunities and to retain competitive advantage. Fujimoto⁷² refers to this process as capability building competition. It was exactly this competition, which encouraged the big players to look beyond their existing organizational framework and to establish new ties with other industry players, be it through alliance or integration, in order to exchange productive, financial and managerial resources. Fujimoto⁷³ has further defined capabilities as *"stable patterns of firms productive resources and their activities which create inter-firm differences in organizational performance and are hard to imitate by competitors"*. Foss⁷⁴ describes capabilities as certain internal characteristics unique to a firm, in particular the distinctive abilities of a firm to compete, improve and survive. It should be noted that such capabilities especially on the deeper firm level such as productivity may take decades to develop, thus the outcome of the high M&A activity in the late nineties might still be not observable today. Apart from the firms long term capabilities on a productive level, other long term strategic goals such as the entrance of new markets (e.g China) also came into play.

⁷¹John A.C. Conybeare, " Merging Traffic: The Consolidation of the International Automobile Industry ", Rowman and Littlefield Publishers, Inc 2004, p 26

⁷² Takahiro Fujimoto, Daniel Arturo Heller, " Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry ", University of Tokyo 2001, p1

⁷³ Takahiro Fujimoto, Daniel Arturo Heller, " Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry ", University of Tokyo 2001, p2

⁷⁴ Nicolai J. Foss, " Resources and Strategy: A Brief Overview of Themes and Contributions", Oxford University Press, 1997,p3-18

4.2. Advantages and Disadvantages Related to Size

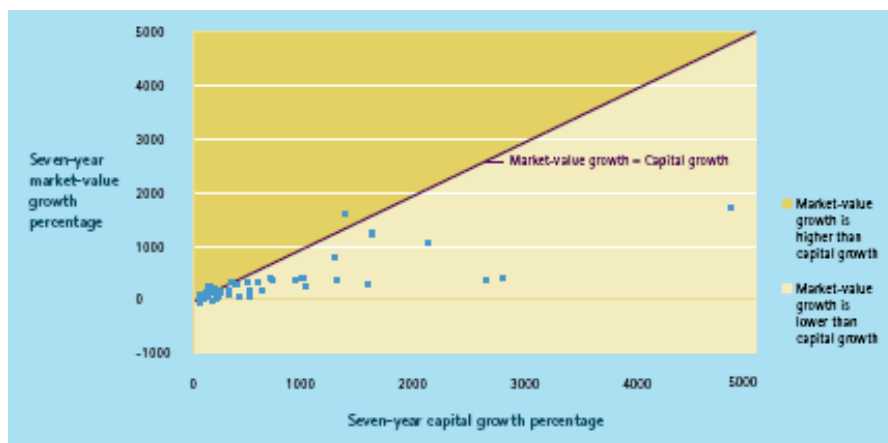
4.2.1. Advantages

The following chapter addresses the main advantages and disadvantages related to the size of a firm particular in the car industry. I will approach the topic from a general perspective, meaning that the statements mentioned herein apply for both transactions Daimler Chrysler and Renault Nissan.

- **Economies of Scale**

Economies of scale are by far the most significant advantage when it comes to size, however the question is if an increase in scale translates into value creation. Nunes and Breene⁷⁵ test the relationship between scale and value creation. They use capital growth as a proxy for scale and test whether increased capital growth also leads to an increase in market value. They took a sample of the 50 most capital growth intensive US firms during a period of seven years from 1997 to 2004. As the graph below indicates, out of the sample only few firms were able to keep their market value on pace with capital growth (firms that are on or above the line). Furthermore the firm s that grew their capital the most tended to be the ones with the least relative market value increase.

Figure 6: Scale and Value Creation



Source: Tim Breene Paul F. Nunes, " Is Bigger Always Better ", Accenture Outlook 2004 Nr.3, p 23

⁷⁵ Tim Breene Paul F. Nunes, " Is Bigger Always Better ", Accenture Outlook 2004 Nr.3, p 23

- **Increased Bargaining Power and Cost Savings**

According to Joseph F. Foudy⁷⁶ a main advantage besides scale, which is directly related to increased size and does not only account for the car industry, is the increased bargaining power in procurement of parts and raw materials. With respect to mergers two formerly separate firms can pool their procurement and consequently drive down the purchasing price. In simple terms, the larger the firm the larger the discount it is able to negotiate. Furthermore the costs related to managing the procurement process are also likely to go down due to the overall reduction of firms with which the combined entity has to maintain relations with. Foudy⁷⁷ further concludes that apart from discounts in procurement, a combination of businesses for the sake of creating a stand alone entity twice the size of the former two entities allows for significant cost savings through sharing of production factors. In the car industry this would be parts and platform sharing between models. By sharing parts and platforms design and development costs are spread over more vehicles. In the case of Renault and Nissan, platform sharing was one of the main motivations behind the merger but it will be treated in more detail later on. Summarizing the above paragraph, the advantages of scale and scope are undeniable but the firms should also consider other factors especially if MES is already reached.

- **Diversification**

Foudy⁷⁸ relates diversification as another main advantage to size. The global car industry is highly cyclical and it is often uncertain how a new model will be perceived by the market. Thus a globally positioned car group is better able to balance out losses in one world market with earnings in another one. The incentive of selling to the largest possible market represent a practical example of the previously mentioned economic force behind Cross Border M&A.

- **Less Exposure to Exchange Risks**

Yet another motivation to expand production facilities to key countries be it through organic growth or mergers and acquisitions, is lower exposure to currency swings. The ever faster technological progress of the industry and the need to adapt to new

⁷⁶ Joseph F. Foudy, "Shareholder Value and the German and Japanese models: A case study of the automobile sector", Yale University, "o.J." "p21

⁷⁷ Joseph F. Foudy, "Shareholder Value and the German and Japanese models: A case study of the automobile sector", Yale University, "o.J." "p22

⁷⁸ Joseph F. Foudy, "Shareholder Value and the German and Japanese models: A case study of the automobile sector", Yale University, "o.J." "p23

technologies is coherent with exploding R&D budgets reaching billions of dollars annually. Foudy explains that it already is common practice to collaborate in these areas, since the necessary funds to develop for example fuel cells or hybrid engines could not be obtained otherwise.

4.2.2. Disadvantages

As I have already highlighted in the section on limits to value creation, mega mergers require more diligent planning than normal mergers in order to be successful. Apart from the massive consumption of monetary and managerial resources, one of the biggest challenges lies in the integration of the two entities especially concerning cross boarder mergers.

- **Post Merger Integration**

Mega mergers are more prone to integrative problems due to the fact that the bigger the entities, the more complex the integration process. Even in the presence of today's communication technologies face to face contact is still crucial to establish a common basis for integration. If the two entities are situated thousands of kilometers apart from each other, forming this basis requires mutual effort. As we will see in the two cases, in one case there was a special emphasis on integration, whereas in the other case it seemed to be rather neglected. As the studies will demonstrate the integrative effort turned out to be a main source for value creation, which is also consistent with the findings of Habeck et al. (see theoretical section on PMI) as it is a precondition for the long term development of the merged entity.

- **Increased Public Attention and the Imperative of Revenue Growth**

Tim Breene and Paul F. Nune⁷⁹ examined other factors which come into play when considering mega mergers and are often underestimated. Mega mergers are closely followed by international investors and shareholders of the merged entity have certain expectations to be met. The increasing importance of shareholders has changed the perception of an entity's market value. The traditional operating performance criteria are surpassed by the investors' expectations for future revenue growth. Such growth can hardly be achieved through organic growth, thus M&A might seem to be the only direct way to grow into an expectation-driven stock price. The objective to merge for revenue growth in order to satisfy shareholders' expectations is a difficult task and often leads to the opposite. In fact an Accenture industry report

⁷⁹ Tim Breene Paul F. Nunes, " Is Bigger Always Better ", Accenture Outlook 2004 Nr.3, p22-23

on the automotive industry by E. Cunningham et al.⁸⁰ confirms this notion. In the report the authors determine the best performing auto manufacturers and find four key characteristics, which all performers have in common. One characteristic, which all successful performers have in common is that they grew by organic growth rather than by M&A. Thus I conclude that in the auto industry M&A as a tool for corporate growth is not always the optimal solution.

- **Diseconomies of Scale**

Tim Breene and Paul F. Nunes⁸¹ highlight another problem which is often underestimated. They refer to it as diseconomies of scale. Diseconomies of scale implies that the advantages of scale can be outweighed by losses in flexibility, market responsiveness and employee engagement. Additionally large firms are often already well managed especially in mature industries. Referring to the real costs of merging, diseconomies often result from an overestimation of post merger efficiency and an underestimation of the total cost of merging. This problem has also been identified by Sirower and Sahni but from a different angle. As stated in the theoretical section Sirower and Sahni believe that high takeover premiums tend to destroy value as they can often not be recovered by the expected synergies (see section on practical guidance). Breene and Nunes⁸² further examine the opportunity cost of merging. The idea is that large scale and therefore very complex transactions consume a considerable amount of time and management attention. The necessary integrative effort often comes at the expense of an entities core capabilities and business performance.

4.3. The Daimler Chrysler Merger

At the time the Daimler Chrysler merger was among the largest mergers in history with a transaction volume of 40 billion US\$. . The case is of interest because it was perceived to be a merger of equals, which would not only create significant synergies and provide mutual entrance to new markets but further create one of the world's leading automotive group or as Daimler's CEO Jürgen Schrempp called it the "Welt AG". The case study will be structured as follows. First I will outline the motivations behind the merger and the necessary steps taken prior to announcement. The main section focuses on the potential sources of value

⁸⁰ J.E. Cunningham, U. Riaz, E.J. Johnson, " Life in the Fast Lane ", Accenture Outlook Nr. 3, 2004, p 14

⁸¹ Tim Breene Paul F. Nunes, " Is Bigger Always Better ", Accenture Outlook Nr.3, 2004, p22

⁸² Tim Breene Paul F. Nunes, " Is Bigger Always Better ", Accenture Outlook Nr.3, 2004, p22

creation / destruction. The study further addresses the most important elements that must be accounted for in such a complex international transaction such as differing corporate cultures, difficulties with varying legal environments etc. The last section provides an insight on how the merger has effected the valuation of the combined entity in the short and the long run and ultimately tests whether post merger integration has been achieved successfully.

4.3.1. Company Profiles of Daimler and Chrysler

In 1997, one year prior to the merger with Chrysler, Daimler Benz AG was Germany's largest industrial group. The group was primarily known for its automotive division with Mercedes as a prominent luxury brand but Daimler's automotive division also comprised the manufacturing of commercial vehicles. Apart from its car division Daimler Benz further had operations in the fields of Aerospace, automotive related services and other directly managed businesses. In 1997 the group achieved revenues of US\$ 68.9 billion and had operations in more than 100 countries.

Chrysler on the other hand was mainly active in the U.S with 93% of total sales coming from North America. Chrysler was one of the three big American car manufacturers and had finally recovered from disappointing performance in the eighties. In 1997 Chrysler had the second best year of its history, which was mainly due to the huge success of the Chrysler family van. Apart from automotive operations Chrysler was engaged in financial services, which was mainly related to consumer financing of Chrysler products.

4.3.2. Motivations Behind The Merger

I have already outlined the most common motivations for M&A in the theoretical section, therefore I will try to center my attention on the reasoning of the executives of Daimler Benz AG and Chrysler. Mr. Schrempp, at the time CEO of Daimler Benz AG, can be considered the initiator of the merger, as he wished to create the already mentioned "Welt AG" by combining the two independent entities in a merger of equals. In a press conference Mr. Schrempp states:

"The two companies are a perfect fit of two leaders in their respective markets. Both companies have dedicated and skilled workforces and successful products, but in different markets and different parts of the world. By combining and utilizing each other's strengths, we will have a pre-eminent strategic position in the global marketplace for the benefit of our customers. We will be able to exploit new markets, and we will improve return and value for our shareholders. This is a historic merger that will change the face

*of the automotive industry. This is much more than a merger; today we are creating the world's leading automotive company for the 21st century. We are combining the two most innovative car companies in the world.*⁸³

Mr. Schrempp's statement already indicates the main factors relevant for the merger decision. Both companies derived the majority of their revenues from domestic operations but were trying to expand globally. Daimler achieved 63% of its sales in Europe and Chrysler even 93% in North America. Thus by combining their operations while at the same time maintaining their distinctive brands, both companies would complement each other favorably. Daimler could increase its presence in the U.S and Chrysler could effectively enter Europe. The merged entity could draw upon immediate growth opportunities more easily by using each others infrastructure and capacities. Looking at the theoretical background both firms show asset exploiting behavior and are essentially market seeking to exploit there competitive advantage (See OLI model by Dunning). Another factor, which was not indicated by executive management but was prevailing in the automotive industry of the late nineties was excess capacity, a problem I have already pointed out in the section on value drivers. By combining its operations the new Daimler Chrysler group might have been less exposed to the overcapacity issue. The next paragraph will list the main arguments for merging Daimler and Chrysler as indicated by the corresponding executive members of each party. The information is based on the Daimler Chrysler Merger prospectus and the research paper of Blasko, Netter and Sinkey. The Daimler Benz Management board unanimously approved the merger and qualified their decision with the following main arguments. These arguments are consistent with sources of value creation as identified by Grinblatt and Titman⁸⁴ and others:

- *Operating synergies:* By far the most common motivation for mergers. According to the estimates in the Daimler Chrysler merger prospectus⁸⁵ Daimler Benz expected short and long term synergies amounting to \$ 1.4 billion in the first year after the merger and annual synergies of \$ 3 billion within the first three to five years after the merger. Executive management stressed that these synergies were not to be achieved by the closing down of plants and a decrease in the workforce but rather through possible short term synergies in procurement, distribution and Research & Development and long term synergies especially in the further development and growth of new markets.

⁸³ Press release, Daimler Benz AG, May 6th 1998

⁸⁴ M. Grinblatt, S. Titman, " Financial Market and Corporate Strategy ", Irwin/McGraw Hill, 1998

⁸⁵ Daimler Chrysler prospectus, September 1998, p59

- *Market power:* As stated in the merger prospectus the immediate extension of Daimler's product range, resulting in an increased brand diversity, would decrease its dependence on the premium segment, and a further expansion in the U.S would ultimately strengthen its competitive position in the global automotive industry.
- *Enhanced liquidity:* Referring to the prospectus Daimler Benz argues that founding the world's third largest automotive group in terms of market capitalization, total revenues and earnings, would very likely increase the liquidity for future Daimler Chrysler shareholders.
- *Earnings diversification:* According to Blasko, Netter and Sinkey⁸⁶ acquiring firms focus on earnings diversification in an attempt to generate higher cash flows at the same risk level. This approach substitutes reductions in business risk (earnings fluctuations) for greater financial risk (leverage). Grinblatt and Titman⁸⁷ say that diversification can reduce the probability of bankruptcy and avoid information problems arising in external capital markets.

Chrysler also unanimously gave its approval for the merger. Expected synergies were also a main argument but will not be repeated again, however this argument and the actual monetary benefits apply to both parties. The remaining key factors leading to the approval of the board were:

- *Market power:* As stated in the merger prospectus⁸⁸ the market power argument also played a significant role for Chrysler but was regarded from a different angle as compared to Daimler. Under the assumption of rapid consolidation, finally leaving only a few global players behind, Daimler Chrysler would be in a better position to withstand competition.
- *Complementary strengths:* In the prospectus Chrysler referred to two fields where Daimler and Chrysler would be able to develop and realize complementary strengths. First Daimler and Chrysler would complement each others product portfolio and geographic reach. With respect to the product portfolio Daimler had a competitive advantage in high end and luxury vehicles and Chrysler had a strong position with the heavily demanded sports utility vehicles and minivans. Second they could learn from their

⁸⁶ Matej Blasko, Jeffrey M. Netter, Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short Term Gains, Long Run Wealth Destruction?", *Issues in International Corporate Control and Governance*, Volume 15, 2000, p302

⁸⁷ M. Grinblatt, S. Titman, "Financial Market and Corporate Strategy", Irwin/McGraw Hill, 1998, p680

⁸⁸ Daimler Chrysler prospectus, September 1998, p50-51

counterparts core competencies. In the case of Daimler this would be its excellent reputation for engineering, whereas Chrysler is considered to be extraordinarily strong in product development. It think that both firms considered the main sources of value creation to come from revenue enhancement and cost savings and saw relatively little potential from resource redeployment.

Interestingly and in contrast to Daimler, Chrysler's executive board did also mention concerns such as possible difficulties related to the complex integration of such two large geographically dispersed corporations. However the potential risks of the transaction will be treated in more detail in the following paragraph.

4.3.3. Possible Risk Factors Associated with the Merger

Even though the possible risk factors were anticipated by both parties, none of the two believed that they could be severe enough to diminish the expected gains from the transaction and ultimately lead to value destruction.

As with most mergers the major risk is the shortfall of expected synergies, which justify the paid premium for the target entity in the course of the merger. Thus if these synergies are not achieved in the long run they can not make up for the costs related to the merger and the already mentioned premium. The question is how the new merged entity can control for the actual realization of synergies. I believe that the far most important determinant in this respect is a successful integration of business operations and even more important corporate culture

Only if the employees of the merged entity feel comfortable with the new corporation, meaning that they perceive the merger to be increasing their personal utility, then synergies will be achieved. In this respect it should be noted that ultimately there are always people behind accounting numbers and financial performance. The Daimler Chrysler merger was especially exposed to this risk since as a cross border merger between Germany and the U.S, geographic and cultural dispersion was considerable. The next section will relate the potential risks to the Daimler Chrysler Case. Apart from the cultural differences, there are other risk factors which have to be considered such as transaction related risks and other exogenous risks, which can not be controlled by the firm.

4.3.3.1. Risks Related to Corporate Culture

The merger between Daimler and Chrysler was intended to be a merger of equals. However it was obvious from the beginning that Daimler would be the stronger partner. As a consequence former Chrysler employees were afraid that their German counterparts would

be privileged. Additionally Daimler would sooner or later impose its own corporate culture on the merged entity, which may not fit Chrysler's vision of corporate identity.

Blasko, Netter and Sinkey mention another⁸⁹ aspect which was perceived unfavorably by Chrysler. Upon Robert Eaton's retirement, Daimler Chrysler's Co-CEO, which was due in 3 years time, the planned dual headquarters, one in Auburn Hills, Michigan, and one in Stuttgart, would likely be combined to a single headquarter in Germany. This would imply the centralization of control and decision power in Germany, which was necessary to mesh the so far competing marketing, engineering and manufacturing departments. Despite the competitive aspect of combining the departments, the centralization created more insecurity and disapproval among Chrysler employees. The problems related to Mr. Eaton's retirement and consequently the insecurity among Chrysler employees is consistent with one of the seven rules for successful post merger integration by Habeck et al. namely leadership and could probably have been avoided.

Blasko, Netter and Sinkey point out that the role of labor unions and their influence on management's decisions is also a significant cultural difference. Compared to the U.S, German labor unions have a stronger influence, which is due to the fact that employee representatives, which representatives of labor unions are part of, are legally obligated to be part of the supervisory board. This form of governance is not the case in the U.S, where the board of directors usually consists of independent outside directors. Considering the case of an unexpected economic downturn, which is likely to result in layoffs, the question is how these layoffs will be balanced between the U.S and Germany. This problem can be directly related to the structural barriers I have mentioned in the section on limits to value creation. According to Blasko, Netter and Sinkey this problem was neither addressed during pre- or post-negotiation talks. In my opinion Daimler Chrysler management must have been aware of this issue but simply underestimated it.⁹⁰

⁸⁹ Matej Blasko, Jeffrey M. Netter, Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short Term Gains, Long Run Wealth Destruction?", *Issues in International Corporate Control and Governance*, Volume 15, 2000, p318

⁹⁰ Matej Blasko, Jeffrey M. Netter, Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short Term Gains, Long Run Wealth Destruction?", *Issues in International Corporate Control and Governance*, Volume 15, 2000, p318

Blasko, Netter and Sinkey⁹¹ find that differing management compensation policies also imply significant conflict potential. This finding is also supported by Digeorgio⁹² or Bruner et al⁹³. In this context compensation policy primary concerns executive management. Executive compensation between the U.S and Europe varies significantly. Around the time of the merger the average total compensation for American executives amounted to US\$ 1.1 million compared to only US\$ 400.000 in Germany. The relatively low compensation for German executives is due to the European understanding of social justice, thus European governments and ultimately its corporations refuse to pay such high salaries. In recent years executive compensation has increased significantly although it is still far away from American standards. In the case of the merger the former compensation systems of Daimler Benz and Chrysler were replaced for a common performance based stock appreciation rights system. The appreciation rights were intended to bear the same benefits like stock option plans only without stocks being purchased or sold. Instead the difference between the strike price and the stock price on the day of exercise is paid out in cash. This system was designed for 80 to 250 top executives in the merged entity. A good example of the vast difference between American and German executive compensation are the total compensation packages of the two CEOs. In 1997 Chrysler's CEO Robert Eaton received US\$ 11.5 million, which is almost six times the amount of Mr. Schrempp's US\$ 2 million compensation package. The reverse situation was the case for the average employee. German labor costs almost doubled the amount of their American counterparts. Thus the average American Chrysler employee was expecting a significant salary increase. A solution to this problem would be the introduction of a region based salary system, which was based on competitive companies that were operating under a similar environment.

4.3.3.2. Transaction Related Risks

As stated in the Daimler Chrysler merger prospectus⁹⁴, management considers the envisaged exchange ratio for Daimler and respectively Chrysler to obtain shares of the merged Daimler Chrysler entity as a potential risk factor. The exchange ratio for former

⁹¹ Matej Blasko, Jeffrey M. Netter, Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short Term Gains, Long Run Wealth Destruction?", *Issues in International Corporate Control and Governance*, Volume 15, 2000, p319

⁹² R.M. Digeorgio, "Making Mergers and Acquisitions Work : What We Know and Don't Know – Part II ", *Journal of Change Management*, Vol 3, 2003, p 272

⁹³ R.F. Bruner, P. Christman, R. Spekman, "Daimler Benz AG: Negotiations Between Daimler and Chrysler" *Darden Business School Case*, 98, p12

⁹⁴ Daimler Chrysler prospectus, September 1998, p24

shareholders of the separate entities was fixed. This indicates that any increase or decrease in the share price of each entity and consequently a change in the market value between the signing of the combination agreement and the closing of the merger would not be accounted. Thus any significant change in the market value during that specified period would leave one side disadvantaged, since they receive less than their shares are actually worth.

Yet another uncertainty, which had to be considered was the accounting treatment of the transaction. In 1997 the US GAP and IAS standards allowed for two methods regarding the accounting treatment of a transaction. An accounting treatment under the “purchase method” records the goodwill of the target entity as the *difference between the actual acquisition price and the fair value of the target’s tangible and intangible assets less assumed liabilities*. With the “pooling of interests method” the assets and liabilities of both entities are simply combined under a new “ consolidated balance sheet “, thus the acquisition price and inherently the goodwill of the target is not accounted. Compared to pooling of interests, the purchase method results in higher asset values, which increases amortization and depreciation expenses and ultimately lower the net income of the new entity. According to estimates of Daimler Chrysler, an accounting treatment under the purchase method under the assumption that the transaction was completed by January 1 1997, the decrease in net income for year ending 1997 and the first two quarters of 1998 would amount to US\$ 717 million. The treatment of the transaction was unclear and dependent on numerous conditions. Whether or not the transaction would qualify for pooling of interest was still to be seen and with it the financial impact. It should be noted that today only the accounting treatment of a transaction under the purchase method remains

Both of the above risks are stemming from technical barriers. Another issue, which had to be addressed but was perceived as a formality were government approvals mainly related to antitrust and competition, thus a structural barrier. Such approvals may only be obtained in connection with reorganization like divestitures of certain business activities or operating restrictions.

Blasko, Netter and Sinkey⁹⁵ point out another risk factor, which I believe has either been ignored or otherwise underestimated and can be related to a structural barrier. It was unclear

⁹⁵Matej Blasko, Jeffrey M. Netter, Joseph F. Sinkey Jr., “ The Daimler Chrysler Merger: Short Term Gains, Long Run Wealth Destruction?”, Issues in International Corporate Control and Governance, Volume 15, 2000, p320

whether the new Daimler Chrysler share would be included in the American S&P 500 index. The main risk was related to a possible rejection by S&P 500 to include the new share in the index. A rejection would imply a significant loss of American shareholders in the new entity. A solid American shareholder base would be crucial to guarantee a healthy balance between European and American shareholders of Daimler Chrysler. Despite several attempts by Daimler and Chrysler management to include the company's share in the index, S&P rejected the listing before the merger was completed. The reasoning behind the rejection was that Daimler Chrysler was to be incorporated in Germany, therefore registered under German Law and also paying taxes in Germany. This conflicted with S&P long term policy to only include U.S corporations. S&P rejection of DaimlerChrysler had a dramatic impact on the Chrysler share. Upon the day of the announcement the value of Chrysler shares dropped by 14.6 %. Mainly index funds but also other institutional investors which were at the time invested in Chrysler could not be invested in Daimler Chrysler or at least not through S&P 500. Even though the Daimler Chrysler shares were to be traded at NYSE and several other stock exchanges worldwide the ultimate result was a strong reduction of U.S shareholders. Even though the announcement took place before the merger was completed the impact of this event had a negative long term effect on Daimler Chrysler

Harris et al⁹⁶ have also examined the impact of the change in American shareholder ownership. They find that within six months after the merger, American equity ownership of the consolidated firm had decreased from 44 to 21%. They relate the migration of ownership to a lack of corporate governance and disclosure practices, thus a lack of protection especially towards minority shareholder. Coffee, Harris et al.⁹⁷ say that the German incorporation of Daimler Chrysler implied a stronger presence of Daimler in the Daimler Chrysler supervisory board, thus presenting an informational advantage. Consequently American shareholders faced asymmetric information or as outlined in the theoretical section an informational barrier, which negatively impacted American share ownership.

4.3.3.3. Other Exogenous Risks

Regarding industry and market related risks the merged entity will in some cases be even more exposed to certain risks than the two standalone companies. Operating on a global level requires a diligent organization and management of resources. As noted in the Daimler

⁹⁶ Frederick H. deB. Harris, Sherry L. Jarrell, Thomas H. McInish, Robert A. Wood, "Minority Shareholder Expropriation and Asymmetric Information Flows in a Global Registered Share: The Saga of Daimler Chrysler", Finance Working Paper No60, Dec 2004

⁹⁷ J.C. Coffee, "Racing Towards the Top: The Impact of Cross-Listings and Stock Market Competition on International Corporate Governance", Columbia Law Review 102, p1757-1831

Chrysler merger prospectus⁹⁸ government regulations and customer requirements for example related to fuel economy, emission controls and safety will vary across countries and therefore be more complex to handle. Global operations further increase the exposure to foreign currency exchange rates and furthermore to the overall economic situation in different countries. For example a booming U.S economy in combination with high demand may be outweighed by an economic downturn in the European market.

4.3.4. The Daimler Chrysler Integration Process and the Ultimate Failure of Post Merger Implementation

4.3.4.1. The Integration Process

In her case study on organizational development, Dianne C.ST. Jean examines the integration process of the merger and lists the main difficulties related to long term implementation. The newly merged Daimler Chrysler entity was incorporated under German law and therefore required to have a management and supervisory board. The supervisory board, consisting of ten shareholder representatives and 10 employee representatives comprised 5 employee representatives of each counterpart in order to assist the integration. Basically the same accounted for the management board with eight members from each team and two independent members, which were responsible for the entity's Aerospace and Services divisions.

Jean⁹⁹ notes that one of the very first actions of the management board was the formation of a committee, named the "Chairman's Integration Council" (CIC), with the main responsibility to promote the integration of the two companies. Each of the companies prepared themselves for the integration with up to 70 teams and working groups. Additionally an overall coordination team called the "Post Merger Integration Team" (PMI) was introduced. The PMI was headed by Daimler Benz and Chrysler managers and responsible for ensuring the integration in all areas. The PMI comprised several integration teams, which were in two categories "automotive" and "non automotive and corporate functions". The PMIs reported to the Chairman's Integration Council; however ultimate decisions stayed with the management board.

Despite the positive perception of the market, the integration managers of Daimler Chrysler faced considerable difficulties, which were especially related to business culture. Jean¹⁰⁰

⁹⁸ Daimler Chrysler prospectus, September 1998, p24-25

⁹⁹ Diane C.ST. Jean, "Daimler Chrysler Merger: The Quest to create "One Company" ", Babson College, Jan 2001, p9

¹⁰⁰ Diane C.ST. Jean, "Daimler Chrysler Merger: The Quest to create "One Company" ", Babson College, Jan 2001, p10

finds that on one hand there was German Daimler with an emphasis on formality, strict hierarchies and structured decision making process and respect for titles and proper names. On the other hand there was the more casual American Chrysler with the promotion of cross functional teams and free forum discussions. In an early effort to promote mutual integration Chrysler even offered their employees business culture lessons in order to understand the German way of doing business. Mr. Stallkamp, an executive manager at Daimler Chrysler coming from Chrysler and among others responsible for integration stated, when asked about his approach to the integration: *"More and more of my time, if you include the cultural side, is spent on integrating the two companies. My job is to integrate them as much as possible, so we can get the synergies we signed up for, to get one company out of two. The biggest challenge is the need for face to face communications, rather than videophones. You need to meet people in person, rather than long distance, so that means we have to travel more. You have to socialize with each other, you have to meet after business meetings. Otherwise, the comfort factor would keep pushing people back into their own (traditional cliques)."*¹⁰¹ This statement well describes the problems related to business culture. Despite the effort to solve the problem no team or culture class can replace face to face contact, which is crucial in forming a unified corporate identity.

Soon the problems of integration intensified and the CIC, which was created to oversee the group wide integration fell apart. According to Jean¹⁰² the problem was that the CIC only consisted of very few members so that senior officers from both sides felt left behind in the decision making of the company. As a consequence the task of the CIC was redirected to the management board. Mr. Schrempp however installed a small cadre of loyal advisors, to be named Schrempp's " kitchen cabinet" by Chrysler managers. The cabinet remained Schrempp's primary source for information on the integration process.

The PMI on the other hand was intended to identify the combination potential on an operational level and to serve as a catalyst for process redesign. Thus it was crucial in achieving early synergies. The general approach was to identify best practices among both sides and to establish a new system based on the combination of these strengths. In reality both sides wasted their time on trying to convince the counterpart of the superiority of their system instead of elaborating a new business system. Consequently the operational issues were more and more neglected and instead especially the German managers were focusing on achieving their portion of the financial synergy target that had been allocated to them.

¹⁰¹ P.A. Eisenstein, "Making one and one add up to three", Investor's Business Daily, Jan 25th, 1999, p2

¹⁰² Diane C.ST. Jean, " Daimler Chrysler Merger: The Quest to create " One Company" ", Babson College, Jan 2001, p12

Further efforts to encourage integration on an operational level were soon aborted by Daimler's sensitive position on maintaining a separate brand image. Especially Mercedes-Benz managers were extremely reluctant to any collaboration in this area. Consequently a lot of time and resources were wasted on such issues without any valuable outcome.

As Jean¹⁰³ points out, differences in financial reporting and investor relations turned out to be problematic as well. Chrysler having recovered from past financial crisis through major process redesigns and proper cash management have received great recognition for their achievements in turning the company around. Daimler Benz, which prior to the merger had about twice the size of Chrysler had adopted to US GAAP in 1995 and still had to work out a proper cash management. At the discontent of Chrysler financial managers all cash was now pooled in the new company, which made it difficult to trace sources and uses of cash. Chrysler financial managers noted with sarcasm that Daimler was not able to produce a proper cash flow statement. Another problem was the company's approach to the investment community. Compared to Chrysler, Daimler was lacking transparency and attitude towards American investors, which are used to a transparent capital market. Chrysler on the other hand had significant experience in coping with analysts and Wall Street participants. Chrysler strongly urged Daimler to provide quarterly financial statements of Daimler Chrysler to the investment community in the U.S. However Daimler followed a more traditional approach and refused to provide the quarterly financial statements. Instead the Daimler financial head insisted on reporting only the combined semi annual statements. At the time Daimler Chrysler Co CEO Schrempp declared that he wouldn't bother with trying to please young, immature MBA analysts. When the statement was made public, the Daimler Chrysler share dropped by 12%.

4.3.4.2. Strategic Mistakes After the Merger

Mr. Schrempp's vision to create the first truly global auto group was a fine idea but proved to be a strategic mistake in practice.

Despite the fact that Daimler Chrysler was already officially incorporated, Daimler and Chrysler still functioned like two separate entities far from being a united corporation. The inability and probably to a certain degree the unwillingness of executive management to foster a true harmonization of Daimler and Chrysler was a crucial aspect in the ultimate

¹⁰³ Diane C.ST. Jean, "Daimler Chrysler Merger: The Quest to create "One Company" ", Babson College, Jan 2001, p13

failure of the merger. Especially Mr. Schrempp seemed to have followed a different goal from the beginning with the envisioned “Welt AG”. Mr. Schrempp's true intention for the merger became clear in late 2000 in a financial times interview. When asked about the promoted “merger of equals” Schrempp replied the following “If I had gone and said Chrysler would be a division, everybody on their side would have said, 'There is no way we'll do a deal,' ”¹⁰⁴. In the interview Schrempp further indicated that he did not intend a merger of equals from the beginning but rather an outward acquisition. Summarizing the interview Schrempp more or less publicly declared that he had played a strategically motivated trick on Chrysler's shareholders and management in order to eventually internalize Chrysler as a division, which would not have been possible otherwise, thus he disguised it as a merger of equals. Consequently Kirk Kerkorian, a main shareholder of Chrysler filed a USD 2 bn. law suit against Daimler Chrysler accusing Mr. Schrempp of fraud with respect to the disguised merger of equals and consequently a lack of acquisition premium for Chrysler shareholders. The fact there was no acquisition premium for Chrysler is due to the accounting treatment of the transaction as a merger of equals. As already pointed out in the theoretical section very low or even no acquisition premiums usually have a positive impact on value creation. However in this case this potential advantage was definitely outweighed by Daimler's true intentions or in the context of the theoretic background, diverging strategic goals of the merging firms.

It was in early 1999, when Mr. Schrempp and his American pendant Robert Eaton decided to commence talks with Nissan Motor Corp. regarding the acquisition of a possible equity stake. The elapsed time since the Daimler Chrysler merger had not even passed a single year and Daimler Chrysler was seriously considering to enter the Asian market. The effort to gain a foothold in Asia came at a time where all the capacities should have been focused on the integration of Daimler and Chrysler and the creation of a truly consolidated Daimler Chrysler entity. Eventually merger talks with Nissan failed but instead Daimler Chrysler found an adequate partner in Mitsubishi. As noted by Blasko, Netter and Sinkey¹⁰⁵ in march 2000 about a year after the merger talks with Nissan had failed, Daimler Chrysler announced that it was bidding for a 34% equity stake in Mitsubishi corporation, making it the world's third largest car maker with combined annual sales of 6.5 million units. The plans of Daimler

¹⁰⁴ Financial Times, “The Schrempp Gambit”, 29.10.2000

¹⁰⁵ Matej Blasko, Jeffrey M. Netter, Joseph F. Sinkey Jr., “The Daimler Chrysler Merger: Short Term Gains, Long Run Wealth Destruction?”, Issues in International Corporate Control and Governance, Volume 15, 2000, p321

Chrysler to effectively expand its operations to Asia were perceived negatively by its shareholders. The expected benefits of the merger were not achieved and the results lagged behind. The shareholders slowly understood that the praised merger turned out to be more of a challenge than expected. Further expansion was likely to require even more financial and human resources and would draw the attention from the implementation of the Daimler Chrysler merger away to the new Asian adventure. The following table gives an overview on previously mentioned events, which had a negative effect on the share price of Daimler Chrysler.

Table 1: Post Merger Abnormal Returns of Daimler Chrysler

Panel B: Post-merger abnormal returns to DaimlerChrysler (DCX) for some important events

Event Date	Event description	DaimlerChrysler Abnormal return	t-stat
<i>Top Executives resignations*</i>			
December 4th, 1998	DaimlerChrysler's Executive Vice-President of Manufacturing Dennis K. Pawley announced retirement	-1.75%	-0.97
February 5th, 1999	Senior Vice-President of communications for DCX, Steven J. Harris, was hired by General Motors Corp.	-1.70%	-0.95
March 2nd, 1999	Two top engineering executives at DCX, Chris Theodore and Shamel Rushwin, resigned to take similar positions at Ford Motor Co.	-4.25% (2-day return, March 1st to March 3rd close)	-1.80
<i>News related to the loss of S&P500 status and merger talks with other automakers</i>			
October 1st, 1998	Standard&Poor's announces that it won't include DaimlerChrysler in the S&P500 Index	-14.6%**	-7.1
January 11-13, 1999	Rumors about DaimlerChrysler deal to acquire an equity stake in Nissan Motor Co.	-5.98% (2-day return)	-2.5
March 10th, 1999	DCX breaks talks with Nissan. Nissan shares fell 10.9%	5.04%	2.1
March 7, 2000	News about DaimlerChrysler's potential bid for a 30% stake in Mitsubishi Motor Corp.	-2.2%	-1.3

Abnormal Returns (ARs) computed as Datastream-world-market-index adjusted returns.

(*) In addition to these resignations, DaimlerChrysler has been hit by loss of other top executives: Robert Lutz, who retired as Chrysler's Vice Chairman in June after playing a key role in the company's turnaround; Rex Franson, President of Chrysler Financial Corporation resigned in January; William Glaub, CEO of Chrysler Canada died November 26, 1998. And finally, Robert Eaton, former CEO and Chairman of Chrysler, has agreed to retire after 3 years to the merger.

(**) U.S.-dollar return to Chrysler shares (midpoint of SEAQ quotes) from the close on September 30, 1998 to October 2nd, 1998, adjusted by S&P500.

Source: Matej Blasko, Jeffrey M. Netter and Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short term gains, long run wealth destruction?", Issues in International Corporate Control and Governance, Volume 15, page 309

4.3.5. Shareholder Reactions to the Announcement of the Merger and Subsequent Events

Immediate Reactions to the Announcement of the Merger

The following section provides information on how the merger was perceived by the shareholders of Daimler Benz and Chrysler. The first part will concentrate on the immediate

reactions of the market to the announcement of the merger. Afterwards I will illustrate the long run development of the share price of the merged Daimler Chrysler entity and certain events that were crucial for the future development of Daimler Chrysler. Looking at the share price development provides a good measure to assess whether value was created or destroyed as a consequence of the merger.

The following table indicates the immediate reaction of shareholders following the announcement of the merger. The time window concerns May 6th and 7th 1998 where the merger agreement was signed and announced worldwide one day later. The combined two day abnormal return of the Chrysler share amounted to 30.9%, which conforms with most empirical evidence on positive return of shares of the target entity. Contrary to most empirical evidence Daimler Benz shares also showed a positive abnormal return of 4.57%. The positive reaction of the target shareholders is not surprising even though the increase in the share price was above the returns, indicated by empirical evidence. The positive abnormal return of the Daimler Benz shareholders as the bidder can be interpreted as a signal of confidence that shareholders had in the Daimler Benz management and ultimately the merger.

Table 2: Abnormal Returns to Daimler Benz and Chrysler around Announcement

Panel A: Abnormal Returns to Daimler-Benz and Chrysler around the merger announcement					
Event Date	Event description	Chrysler		Daimler-Benz	
		Abnormal USD return	t-stat	Abnormal DM return	t-stat
May 6, 1998	The merger agreement signed in London	18.7%	13.5	5.93%	2.96
May 7, 1998	Worldwide announcement of the merger	10.5%	7.57	-1.25%	-0.90
May 6-7, 1998	Combined 2-day return	30.9%	15.0	4.57%	1.82

Abnormal returns (ARs) computed as market-adjusted returns. S&P500 and DAX30 indexes were used to adjust Chrysler and Daimler-Benz returns, respectively. USD refers to U.S. Dollar, and DM stands for Deutsche Mark. To compute t-statistic, we used standard deviation of ARs during the year 1997. The methodology follows Ruback (1982), and Bruner et al. (1999) and adjusts for the autocovariance of returns:
 $SD(\tau) = [\tau \cdot VAR(AR_t) + 2(\tau - 1)COVAR(AR_t, AR_{t-1})]^{1/2}$; $t\text{-stat} = AR(\tau)/SD(\tau)$; where τ =number of days in the event window

Source: Matej Blasko, Jeffrey M. Netter and Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short term gains, long run wealth destruction?", Issues in International Corporate Control and Governance, Volume 15, page 308

The next table provides the proforma market capitalization of the combined entity in the same time frame. This illustrates the announcement effect in absolute monetary value terms. As one can see during two days the proforma value of the combined entity increased by US\$ 10.3 billion. The increase reflects the information that synergies were expected to amount to US\$ 1.4 billion in the first year and further annual benefits of US\$ 3.3 billion within three to five years.

Table 3: Market Cap. of Daimler Benz and Chrysler around Announcement

Panel A: Market capitalization of Daimler-Benz and Chrysler around the merger announcement			
Date	Chrysler	Daimler-Benz	Combined
May 5, 1998 (1 day prior to the merger news)	\$26.8 billion	\$58.1 billion	\$84.9 billion
May 6, 1998 (the merger agreement signed in London)	\$31.6 billion	\$61.8 billion	\$93.4 billion
May 7, 1998 (wordwide announcement)	\$34.6 billion	\$60.6 billion	\$95.2 billion

Chrysler had 647.3 million and Daimler-Benz 569.3 million of shares outstanding. Closing prices of Chrysler (C) shares and Daimler-Benz ADRs (DAI) on NYSE were used to compute the respective market capitalization.

Source: Matej Blasko, Jeffrey M. Netter and Joseph F. Sinkey Jr., "The Daimler Chrysler Merger: Short term gains, long run wealth destruction?", Issues in International Corporate Control and Governance, Volume 15, page 308

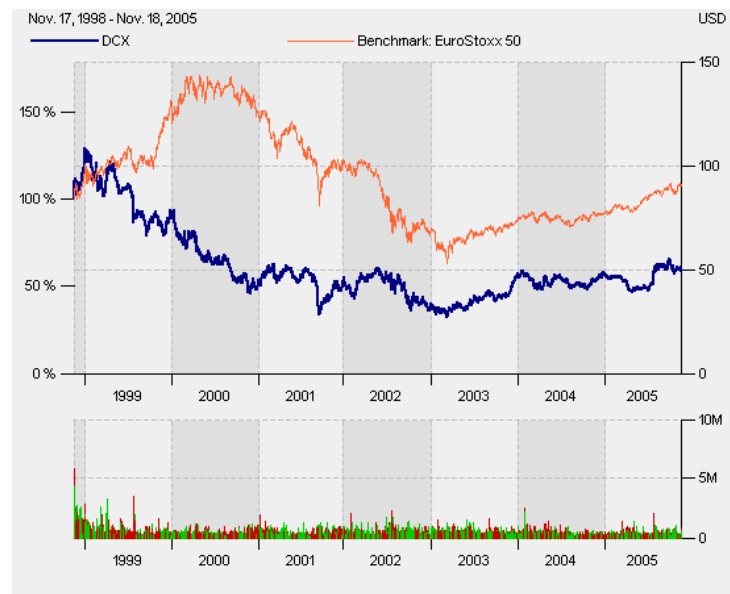
The reaction of the market underlines the notion that the market is efficient when it comes to the processing of information. Interestingly the market already showed a significant reaction one day prior to the official announcement of the merger, which implies that some investors must have had an informational advantage.

Long Term Impact of the Merger

Subsequently to the previously mentioned events Daimler Chrysler was not able to create a common corporate identity and thus a successful implementation of the merger. The expected long term synergies were not realized instead the combined earnings of Daimler Chrysler were way behind expectations. What followed in the years after the merger was wealth destruction on a massive scale. Chrysler sales dropped drastically but also Daimler's luxury brand Mercedes suffered from weak demand, which was caused by the overall weak economic development in Europe. In the U.S the weak demand for Chrysler cars was due to intense competition from Japanese car makers such as Toyota and Nissan. This did not only concern Chrysler but furthermore basically all U.S car manufacturers, which were losing market shares to their Japanese competitors. Chrysler's earnings have further been hurt by worse than expected results in Asia and Latin America. The European Smart car division also registered dramatic losses since its introduction in 1998. Although the actual losses are hard to measure since the Smart division until 2004 did not report their financial results separately, experts estimate that only the losses from Smart during the period from 1998 to 2006 exceed EUR 5 billion. The combination of all these factors posed a heavy burden on Daimler Chrysler. The question is how Daimler Chrysler would have performed if management had succeeded in integrating the two companies. The following table depicts the share price development of the Daimler Chrysler share on NYSE over a period of seven

years from November 1998 till November 2005. As one can see an American shareholder would have lost about 40% of his invested capital over the period. The blue line represents the Daimler Chrysler share price development, whereas the orange line is a random benchmark in this case the development of the EuroStoxx 50 index. Compared to the benchmark one can see that value was especially destroyed in the early years after the merger. Blasko, Netter and Sinkey note that during the period from May 7th 1998 (day after the merger announcement) to March 14th 2000, the Daimler Chrysler market capitalization declined by 34% compared to a +34,5% return to GM shareholders and a -12,3% return to Ford shareholders over the same period. Their finding is consistent with with that of Laughran and Vijn¹⁰⁶, who predict negative post-acquisition returns to long term shareholders in stock mergers. After the September 11th terrorist attacks the stock market generally surpassed a phase of decline. Nevertheless Daimler Chrysler was not able to recover until late 2005, where management announced that it would perform a large scale restructuring, which would also include layoffs of about 14.000 employees.

Figure 7: Daimler Chrysler Long Term Share Price Development



Source: Daimler Chrysler Website

¹⁰⁶ T. Loughran, A.M. Vijn, "Do Long Term Shareholders Benefit from Corporate Acquisitions?", *Journal of Finance*, 52(5), p1765-1790

4.4. The Renault Nissan Merger

In early 1999 Renault and Nissan announced that they would enter into a strategic alliance. For the beginning Renault bought a 36.8 % equity stake in Nissan, which was at the time the largest investment (US\$ 5.4 billion)in a Japanese company by a foreign Investor. Additionally Renault took a 15.2% equity stake in Nissan Diesel and bought Nissan's financial subsidiaries in Europe. In early 2002 Renault increased its equity stake in Nissan to 44.4%, while Nissan bought a 15% equity stake in Renault for about EUR 2.2 bn. Renault had been reviewing several opportunities for further expansion and thus entering new markets, since its operations were mainly limited to Europe. From Renault's side the alliance was carefully chosen and prepared diligently since the company wanted to avoid another strategic mistake like the failed merger with Volvo a few years earlier. Nissan on the other hand was in serious financial trouble with large debt outstanding basically forcing Nissan to the verge of bankruptcy. Thus Nissan was looking for a partner with sufficient financial means to cover the company's debt and to return it to profitability. Apart from that, the strategic alliance was based on several other reasons, which will be illustrated in a later chapter of the case. The merger did also bear significant risks, which from a corporate cultural point of view were even greater as compared to the Daimler Chrysler case. Michael Y. Yoshino and Perry L. Fagan have prepared a case study, which gives a detailed insight on the Renault Nissan alliance and was taken as a basis for the following chapters.

4.4.1. Company Profiles of Renault and Nissan

Renault was the oldest and most prestigious French car manufacturer. Renault operated profitably throughout the nineties, thanks to a restructuring program, which had been imposed to the company previously. Despite relatively small operating margins, Renault achieved satisfying financial results in the late nineties, mainly due to a tight cost structure, a relatively strong car market and the successful introduction of new models. Yoshino and Fagan¹⁰⁷ find that at the time Renault sold about 85% of its cars within the boundaries of Europe, a third of which were sold in the domestic French market, thus international presence outside Europe was only marginal. Regarding the product range Renault was principally manufacturing small to medium sized cars, which was due to the preferences of

¹⁰⁷ Michael Y. Yoshino, Perry L. Fagan, "The Renault Nissan Alliance", Harvard Business School Case, May 2003, p2

the European market. Besides that Renault had minor operations in the premium and light commercial vehicle segment.

Tokyo based Nissan group was among Japan's top three automakers. Despite its good reputation for productive performance Nissan had been losing market shares in its domestic market for the past 27 years. In the time before the alliance Nissan was close to insolvency with debt amounting to US\$ 20 billion. Yoshino and Fagan¹⁰⁸ say that Nissan's poor performance stemmed from high procurement costs, product and brand management and excess bureaucratic structures. Regarding international operations Nissan had more international presence than Renault. Nissan had significant operations in the U.S with its subsidiary Nissan Motor Corp. Apart from the U.S, the group was active in South America, Australia, Asia, South Africa and to a small extent in Europe.

4.4.2. Motivations Behind the Alliance

In the face of rapid global consolidation among major car manufacturers Renault and Nissan formed the alliance to sustainably enter and survive the global market, and to benefit from mutual learning and capability building. The combination made sense at a time where Renault was under pressure to increase its international presence and operational performance, Nissan on the other hand under the prevailing financial condition had the choice to either find a strong partner or go out of business. As Mr. Ghosn, at the time appointed by Renault as Nissan's COO, explained the rationale for Renault's investment: "*On paper, the deal made sense for both sides: Nissan's strength in North America filled an important gap for Renault, while Renault's cash reduced Nissan's mountain of debt. The capabilities of the companies were also complementary: Renault was known for innovative design and Nissan for the quality of its engineering.*"¹⁰⁹ Renault, which itself had undergone a financial crisis during the eighties had successfully recovered and was confident in turning around Nissan's financial performance while at the same time drawing upon Nissan expertise in engineering and productivity. The following points provide the pro's of the alliance for each companies.

¹⁰⁸ Michael Y. Yoshino, Perry L. Fagan, "The Renault Nissan Alliance", Harvard Business School Case, May 2003, p3

¹⁰⁹ Carlos Ghosn, "Saving the Business Without Losing the Company" Harvard Business Review, January 2002

4.4.2.1. Renault

- *International expansion Opportunity:* As noted by Fujimoto and Heller¹¹⁰, Renault was seeking for expansion opportunities for quite a long time since its operations were mainly limited to Europe. Under the circumstances of a consolidating car industry, from a strategic point of view Renault was forced to expand if it wanted to remain a main global car manufacturer. Due to its effective restructuring program and extensive cost cutting Renault had sufficient funds but was lacking an adequate partner. Nissan was especially attractive to Renault because it already had global presence especially in Japan and the U.S, the world's largest car market. Summarizing the above reasoning, the main rationale for seeking international expansion were based on expected revenue enhancements through the penetration of new markets while at the same time using each others distribution channels. Or as Doz and Hamel put it, the strategic imperative here was “ racing for the world “ (see theoretical section).
- *Operational productivity and engineering skills:* Despite its disappointing financial performance Nissan was still among the world's leading manufacturers with respect to productivity and engineering. Fujimoto and Heller state that Renault was lacking such capabilities and was eager to improve its deficits in assembly productivity, product development lead times and engineering expertise. By entering the alliance Renault would be able to perform diligent benchmarking of Nissan plants and knowledge exchange with Nissan engineers. Shared research and development would enable Renault to achieve long time benefits from Nissan's engineering capabilities especially in the field of engine and transmission system development. In this case Renault definitely pursued a long term objective, which I believe is consistent to what Doz and Hamel refer to as “ racing for the future “.
- *Operational Synergies:* According to Yoshino and Fagan¹¹¹, Renault and Nissan were expecting to achieve overall cost savings and synergies of US\$ 3.3 billion by 2002. Most of them would be coming from joint procurement of parts, combined sales and distribution by using each others distribution networks, shared research and development, and synergies in manufacturing basically through intensive platform sharing.

¹¹⁰ Takahiro Fujimoto, Daniel Arturo Heller, “ Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry “, University of Tokyo, 2001, p7

¹¹¹ Michael Y. Yoshino, Perry L. Fagan, “The Renault Nissan Alliance“, Harvard Business School Case, May 2003, p2

4.4.2.2. Nissan

- *Immediate support on pending financial crisis:* Nissan's debt was amounting to US\$ 20 billion prior to the merger thus Nissan creditors were pushing the company to find a financially liquid partner. Renault was willing to invest US\$ 5.4 billion for the minority stake in Nissan (36.8 %), which would enable Nissan to pay down its liabilities. As Yoshino and Fagan¹¹² describe apart from the immediate effect, Nissan would benefit from Renault's experience in elaborating and implementing a radical restructuring plan. Renault's man for the job would be Mr. Ghosn, who had earned himself the accurate nickname "Le Cost Killer" for the successful implementation of a cost reduction program at Renault. The Alliance would probably not have been possible if Nissan hadn't been in such a severe situation. This was especially true for Japan, a country originally very reluctant to outside investors. However the Japanese economic crisis and an urgent need for corporate restructuring only made the entrance of foreign investors possible. As previously described this was one of the factors that drove cross border transactions.
- *Improvements in brand management and design:* Fujimoto and Heller¹¹³ note that in the late nineties Nissan had poor brand design, infrequent model changes and weak overall product planning. Renault on the other hand had a good reputation for innovative brand conception and design, which was supported by the fact that Renault had introduced several new models and successors of existing lines with great success during the nineties.
- *Long term strategic management:* According to Fujimoto and Heller Nissan's critical situation was also resulting from strategic mistakes. Under pressure from its main competitor Toyota, Nissan tried to match Toyota's huge product range despite constantly decreasing sales volumes. As a consequence Nissan had too many different models and distribution channels. Yet another problem which concerned the operational level but was closely tied to long term strategy was Nissan's inefficient procurement of parts. Basically all Japanese car manufacturers had close relationships with their suppliers, which stemmed from the keiretsu like organizational design. In some cases suppliers had been contracted for decades, thus there was little incentive to offer competitive prices. Therefore Nissan and other Japanese car manufacturers were paying prices way above the international price levels.

¹¹² Michael Y. Yoshino, Perry L. Fagan, "The Renault Nissan Alliance", Harvard Business School Case, May 2003, p4

¹¹³ Takahiro Fujimoto, Daniel Arturo Heller, " Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry ", University of Tokyo, 2001, p7

Overall both partners had good reasons for entering the alliance. Considering the various motivations I would categorize it as a Hybrid Alliance, combining both approaches, exploitative and an explorative, as mentioned by Koza and Lewin (see theoretical section). Even though the economic reasoning was the stronger motivation, I think that especially Renault had great expectations regarding Nissan's technical expertise.

4.4.3. Risk Factors Associated with the Alliance

A priori the envisaged alliance between Renault and Nissan seemed even more complicated than that of Daimler and Chrysler. Compared to Chrysler, Nissan was in a much worse position and at the verge of bankruptcy. Renault was a relatively small player in the global car industry and was not even close to Daimler's financial strength. The equity purchase and assumption of Nissan's debt was a risky step for Renault, which required diligent planning ahead but also signaled Renault's confidence in the alliance. The next paragraph will underline the major risks associated to the transaction.

4.4.3.1. Risks Related to Corporate Culture

The greatest challenge in the alliance was the different business culture. Korine et al¹¹⁴ find that the lack of prior cooperation between the two alliance partners and the wide variation in culture would make a successful alliance unlikely. Sharon Nkrumah and Jenny Strand¹¹⁵ say that the Japanese and French business cultures could not be any more diverse.

Starting with the language barrier and the need to introduce English as the common alliance language, which does not necessarily come natural among both French and Japanese management, the day to day difficulties were significant. Nkrumah and Strand prepared a questionnaire for Renault and Nissan employees where they also addressed problems related to the alliance. According to that questionnaire the language barrier was the most cited problem by both sides. The respondents also felt that during the early phase of the alliance there was a lack of communication especially from higher management levels to operational levels. The respondents claimed that most of what they knew about the alliance was what they had read in reports in newspapers or T.V.

¹¹⁴ H. Korine, K. Asakawa, P.Y. Gomez, "Partnering with the Unfamiliar: Lessons from the Case of Renault and Nissan", Business Strategy Review, Vol.13 No2, 2001, p41-50

¹¹⁵ Sharon Nkrumah, Jenny Strand, " Marriage of Convenience or Strategic Alliance ? A Case Study on Renault and Nissan ", Linköping University Sweden, Jan. 2005, p55

Apart from communicational barriers Japanese and French approach business in an entirely different way. The core industries of Japan for a long time were reluctant to open up to international partnerships, this was especially true for the car industry. Renault's participation in Nissan was the largest foreign investment so far and would not have been possible if Renault hadn't been on the verge of bankruptcy and could not rely upon the usual support of its Keiretsu partners. The management hierarchy in Japan is bottom up whereas it is top down in France. A problem mentioned by the respondents to the questionnaires was that for French employees working in Japan it was very unusual to work in the same room as their boss. The Japanese were used to it and didn't find anything negative about this system. The French employees felt that the atmosphere was too formal, suppressive and limiting their freedom, since they had to work under direct supervision of their boss. In France the boss would often have a separated office and such direct supervision was practically non-existent. Thus French employees considered such working conditions rather inappropriate.

All of the above issues occur during post merger integration. I think especially Renault put great emphasis on PMI, which was crucial at the early phase of PMI. Otherwise Nissan's initial resentment would not have changed to the better and the alliance would have likely failed. As already pointed out in the theoretical section, the importance of PMI is essential to the success of any transaction acquisition, merger or alliance.

4.4.3.2. Transaction Related Risks

The main risk related to Renault's initial equity participation was Nissan's pending financial crisis. Renault was the smaller one of the two companies regarding size, market position and market capitalization. The decision to buy 36.8% of Nissan's equity was a considerable risk for Renault, especially if Mr. Ghosn would fail to turn Nissan around. In case the expected turn around would have not been achieved, Renault itself would have been likely to find itself in a financial crisis. However Renault already had bad experience with its failed alliance with Volvo and was thus forced to plan any alliance as diligently as possible. Eventually the alliance turned out to be a remarkable success but it could have also gone in the opposite direction. Hughes and Barsoux¹¹⁶ support the notion that despite the perfect match of the Alliance, several industry observers and experts showed strong reservations to the success of the Alliance, due to Nissan's dire financial situation and Renault's credibility as a Rescuer.

¹¹⁶ K. Hughes, J.L. Barsoux, "Nissan's U-Turn: 1999-2001", INSEAD, 2003

4.4.4. Initial Shareholder Reactions to the Announcement of the Merger and Long Term Share Price Development

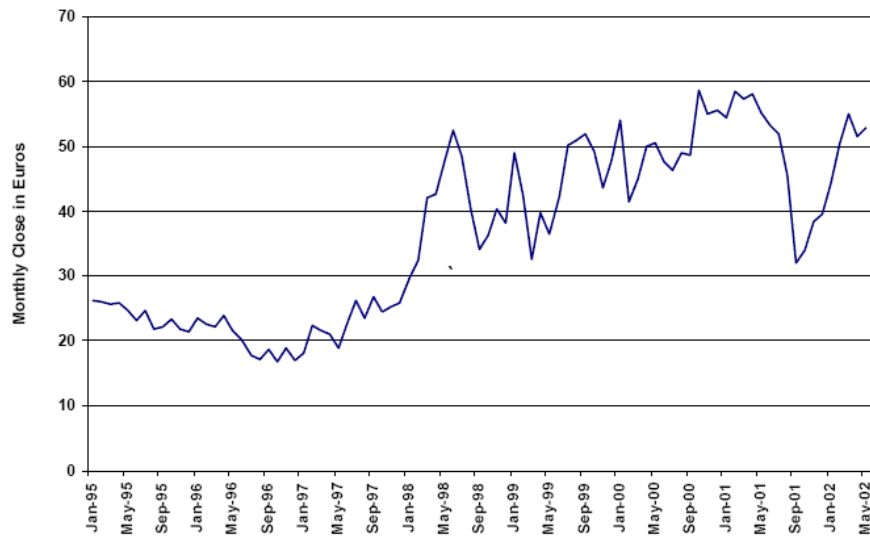
Immediate Reaction to the Merger Announcement

The immediate reaction of Renault and Nissan shareholders to the announcement of the merger was disappointing. According to Nissan executives the alliance was titled “marriage of the poor” or as reported in the Asian Wall Street Journal “alliance of the weak”¹¹⁷. A possible reason for the rejection of the alliance by the market could have been the fact that Renault was not Nissan’s first choice. Nissan had previously tried to enter the alliance with Daimler Chrysler, which at the time seemed more promising for Nissan due to its size and financial capacity. *When asked about Daimler Chrysler Mr. Ghosn explains “As many people know, Renault was not Nissan’s number one choice for partner, Daimler Chrysler was the preferred counterpart, which on paper was not that surprising, given its financial muscle and reputation at the time. In the end Daimler Chrysler dropped out, believing that Nissan was too risky.”*¹¹⁸ However Daimler Chrysler didn’t want to take the risk and found a partner in Mitsubishi later on. The following graph illustrates the development of Renault’s share price from January 1995 to May 2002. Looking at the time window between March 1999, where the alliance agreement was signed to May 1999, where the transaction was executed, one can see that Renault suffered a significant drop in the share price, while Nissan could only register a minor increase, which is rather unusual compared to empirical evidence on target shareholder’s return, also taking into consideration that the equity stake of Nissan was paid in cash, which is hardly ever perceived negatively.

Figure 8: Renault Stock Price Performance (Jan 1998 – May 2002)

¹¹⁷ Yumiko Ono, “Lesson for Today: When in Japan, Bow to Shareholders-Nissan’s Brazilian-Born President Feels the Heat for His Oversight”, The Asian Wall Street Journal, June 21st 2000, p1

¹¹⁸ Scott Miller, Todd Zaun, “Nissan Intends to Return a Favor to a French Ally”, The Asian Wall Street Journal, April 5th 2007

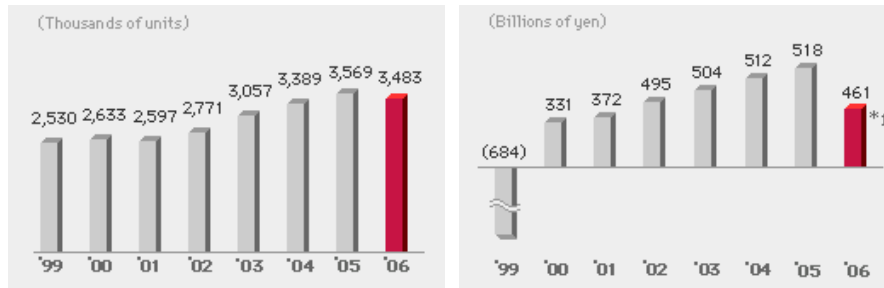


Source: Thomson Financial Data Stream

Long Term Impact of the Merger

The shareholders of Renault and Nissan initially having rejected the alliance slowly realized that the alliance actually worked. This is also contrasting to most empirical findings, which suggest that most shareholder returns tend to be persistent over time. After more than 10 years of losses, Nissan returned back to profitability already in 2000, the second year of the alliance. In the years that followed both companies were able to increase sales volumes and market shares along with profitability. The financial turn around of Nissan can to a large extent be rewarded to Mr. Ghosn, who played the most essential part in the alliance. Without the help of Mr. Ghosn the fast recovery of Nissan would not have been possible. The following graph provides an overview of Nissan's recovery since the formation of the alliance.

Figure 9: Nissan Global Sales Volume and Consolidated Net Income from 1999 to 2006

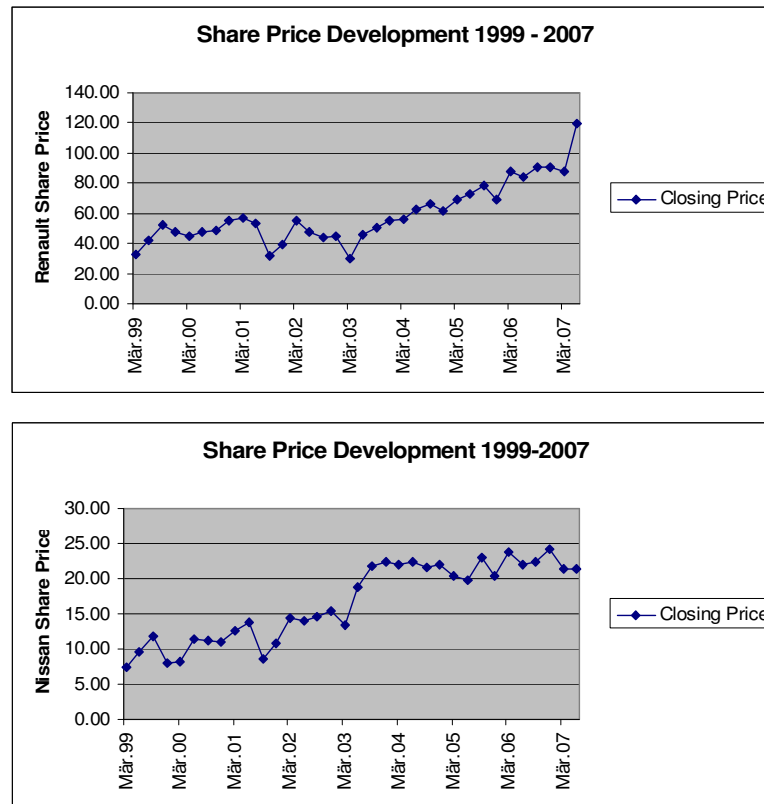


Source: Nissan Company Website

As previously mentioned the shareholders of both companies witnessed a remarkable long term success of the alliance and rewarded the tremendous effort, which has been put into

the alliance. The next two graphs reflect the long term share price development of each company from the formation of the alliance till end of first quarter 2007:

Figure 10: Share Price Development 1999 to 2007-11-06



Source: Own; Created on Share Data from Renault and Nissan Website

4.4.5. Main Drivers for the Successful Implementation of the Alliance

Despite the unfavorable reception of the merger, the Alliance between Renault and Nissan turned out to be very successful. The following paragraph addresses the main factors, which were crucial in the implementation of the alliance.

At the very beginning of the alliance, Renault's CEO Mr. Schweitzer took a decision, which I think was essential to the success of the merger. He decided to send his second man in command Mr. Ghosn, at the time VP at Renault, to Nissan and make him chief operating officer at Nissan. Upon this decision Renault was willing to dispatch one of its best strategists as a top manager at Nissan in order to transfer strategic capabilities as quickly as possible.

Yoshino and Fagan¹¹⁹ point out that CEO Schweitzer was of the opinion that managing the alliance successfully would mean the transfer of management technologies and best practices between the two companies. Fujimoto and Heller¹²⁰ also find that the dispatching of a first class strategist as a top manager to the alliance partner is the most effective way to transfer strategic capabilities. Like I have already mentioned Mr. Carlos Ghosn was famous for his ability to turn around a company and bring it back to profitability. By transferring Mr. Ghosn, Renault indicated to Nissan that it really wanted the alliance to work even if this would mean a considerable sacrifice on Renault's side. Mr. Ghosn was not the only valuable Renault employee that was dispatched to Nissan, Renault further sent Thierry Moulounguet and Patrick Pelata as Nissan chief financial officer and vice president of strategy and planning respectively. Yoshino and Fagan¹²¹ note that in order to avoid resentment of Nissan's executive management for being replaced by their French counterparts, Renault's CEO Schweitzer appointed Nissan's executive Vice President Tsumoto Sawada as Renault's senior vice president and personal adviser to himself. By encouraging the exchange of executive personnel and ultimately human capital, Schweitzer laid a solid foundation for further collaboration, based on trust and mutual respect.

During the early years of the alliance Mr. Sawada commented the following, when being asked for the success of the alliance " Alliance is like a marriage. The partners must make constant efforts to make a marriage a productive and happy one. It is a give and take." The quote of Mr. Sawada describes best the positive attitude, which both companies had in the alliance. Its initiator Mr. Schweitzer was of the opinion that the merger was not about creating a whole new company, it was rather a combination of two businesses, where combining operations seemed reasonable and more important feasible. Schweitzer stated " We are not merging, we are creating a binational company "¹²²; "I do not believe that in a car company you can separate the car, the brand, and the corporation. If you try to merge them without looking at these, you destroy brand value and brand identity. I also believe strongly that the best way to make a relationship work is by doing things together, achieving things together. Traditional mergers ... run the risk of looking inward more than outward. When it is a partnership 13,000 kilometers away, with different languages, and where people look

¹¹⁹ Michael Y. Yoshino, Perry L. Fagan, "The Renault Nissan Alliance", Harvard Business School Case, May 2003, p14

¹²⁰ Takahiro Fujimoto, Daniel Arturo Heller, " Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry ", University of Tokyo 2001, p7

¹²¹ Michael Y. Yoshino, Perry L. Fagan, "The Renault Nissan Alliance", Harvard Business School Case, May 2003, p13

¹²² David Gauthier-Villars, "Car Making: What Makes Carlos Ghosn Tick?" Far Eastern Economic Review, September 14th, 2000, p60

different and behave differently, you are always reminded that you are different. You have to accept this fact and not try to ignore it. We sent a management team to Nissan. We said to the people we were sending that you aren't representing Renault. You are sent by Renault to work for Nissan."¹²³ Having laid the foundation for a successful alliance Renault and Nissan elaborated a detailed plan to make the alliance work and ensure its ongoing progress.

Yoshino and Fagan¹²⁴ examine the implementation and coordination of the alliance on the following pages. The coordination between the two graphically dispersed companies should be performed by 11 so called "cross company teams CCT ". Their main task was to monitor the progress in terms of realization of synergies across the main functional areas. Apart from manufacturing, where the synergies were mostly related to economies of scale the CCT's concentrated on product planning, joint procurement, logistics, sales and marketing. A few teams additionally focused on markets and regions, which was important to identify where the alliance partners could complement each others presence. For example with Nissan being well established in the U.S, Renault had the immediate opportunity to enter the market without much effort, since it could manufacture on U.S soil by using Nissan's plants and had Nissan's network of dealerships. Each CCT comprised approximately 10 members, which were recruited from middle management positions of both companies. Overall there were 500 employees from both companies either directly or indirectly related to the work of the CCTs. CCT's was responsible for major areas like manufacturing and further established sub-teams where the amount of work would not have been manageable otherwise. The CCT itself had a so called "pilot", which had the overall responsibility of a single CCT and would usually be an experienced operational manager. CCT members were not only working for the CCT, the work for the CCT was much more an additional effort besides the regular job at the respective companies. The total work effort devoted to the CCT ranged from 20 to 80% for CCT pilots and 20% for ordinary CCT members. The CCTs had annual meetings to set new targets and identify necessary monetary and personnel resources in order to achieve them. The CCTs were governed and supported by an Alliance Coordination Bureau, which was by two executives, one from each company. The main task of the Coordination Bureau was to compare initial expectations and forecasts with the actual results that have so far been achieved and to report it to the next managerial level. Apart from the reporting function the

¹²³ Christine Tierney, Anna Bawden, Irene M. Kunii, "The Renault Nissan Pairing Pays Off", Business Week, October 23rd, 2000, p26

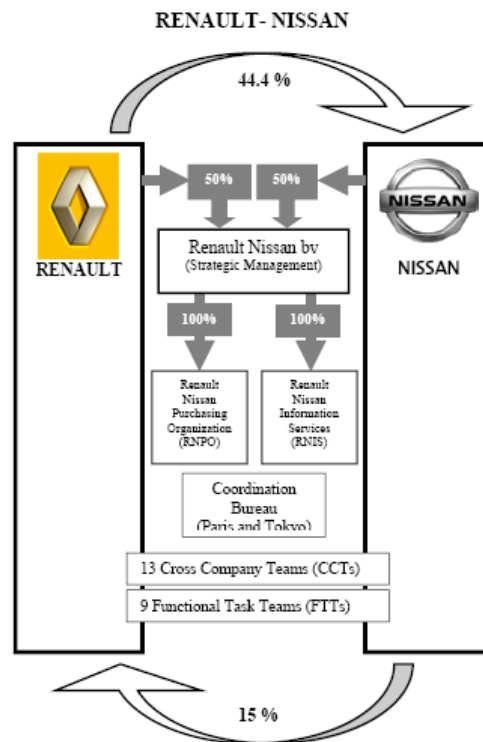
¹²⁴ Michael Y. Yoshino, Perry L. Fagan, "The Renault Nissan Alliance", Harvard Business School Case, May 2003, p4-13

Coordination Bureau gave advice in legal and accounting related issues, issues related to company policy, which were beyond the scope of CCTs and specific problems within the focus of CCTs which required outside support. The CCTs and the Coordination Bureau were in daily contact and held meeting on a monthly basis. The Coordination Bureau would in turn report the results of the CCTs to the ultimate governing body the so called Alliance Board. After receiving the feedback of the Alliance Board, CCTs met again in order to communicate the targets from the Alliance Board to the operational level. The board consisted of the CEOs, chairmen and executive VPs of both companies. The function of the Alliance Board was later replaced by Renault Nissan joint company Renault Nissan B.V., which can be best described as the holding company of the alliance. The establishment of the respective coordination teams and boards created an informal but very effective organizational structure. The structure ensured that the targeted goals were achieved on all organizational levels. Top management in the Alliance board could monitor the progress and make sure that its orders were being implemented on the operational level of both companies. Nissan COO Ghosn described the establishment of the CCTs:

“At a certain point in the negotiations between the two companies, there was a discussion about how they would work together. Renault’s negotiators assumed that the best way forward would be to set up a series of joint ventures, and they wanted to discuss all legal issues surrounding a joint venture : who contributes what and how much, how the output is shared, and so forth. The Nissan team pushed back; they wanted to explore management and business issues, not legal technicalities. As a result, negotiations were stalled. Schweitzer asked me if I could think of a way to resolve that impasse. I recommended abandoning the joint venture approach. If you want people to work together, the last thing you need is a legal structure that gets in the way. My solution was to introduce informal cross-company teams.”

The following graph provides an overview of the general ownership and governance structure of the alliance.

Figure11: Renault Nissan Government and Ownership Structure



Source: Renault Alliance Booklet

In mid 2002, three years after Renault and Nissan had entered the alliance, the CCTs proposed further and more intensified cooperation in six areas namely joint purchasing, R&D, manufacturing, joint distribution, joint information systems and platform sharing. The special focus on these areas and the effort of the coordination teams to achieve long term improvements was crucial for the future of the alliance. The extensive exchange of knowledge and information was only possible through the cross company teams. In most cases the importance of communication, as stated in the Harbeck et al. seven rules for PMI, is neglected. To the benefit of Renault and Nissan it was not the case in their alliance.

- **Joint Purchasing**

As a first step Renault and Nissan founded RNPO (Renault Nissan Purchasing Organization), a virtual joint venture consisting of Renault and Nissan employees from France, Japan and the U.S.. Joint procurement of parts would create significant cost savings for both companies. In order to encourage mutual learning and exchange of best practices Renault and Nissan set up a simple but very effective practice. At the heart of RNPO were Global Supplier Account Managers (GSAM), which were responsible for purchasing strategy, sourcing decisions, performance evaluation and supplier assessment. Each GSAM was supported by a Deputy GSAM. Each GSAM had a deputy GSAM from the alliance partner, thus if the GSAM was a Renault employee his Deputy GSAM would be a Nissan employee and vice versa. This set up created a “ mirror effect

“. Consequently Nissan was able to learn from Renault in the selection of suppliers, which inherently brought significant cost savings for Nissan. Renault on the other hand was able to learn from Nissan's quality management. Potential difficulties were to be solved in finding a consensus which parts should be purchased jointly via RNPO, since both companies were operating in different markets with different requirements and standards. Nevertheless by 2002 RNPO purchases already accounted for 30% of total combined purchasing. Management was determined that joint procurement would exceed 40% within a year and eventually amount to 70%.

- **Research and Development**

By sharing basic research and development both companies could realize significant cost savings. The first joint R&D operation was a program for fuel-cell technologies.

- **Manufacturing**

Regarding manufacturing Nissan was definitely the stronger partner in the alliance. Nissan was famous for its manufacturing capability and had some of the most productive plants in the U.S and Europe. At its plant in Europe Nissan achieved an annual output of 101 cars per year compared to only 77 at Renault. Nissan's advantage in productivity basically came from strong standardization of the production process, which was uncommon to Renault. Additionally Nissan provided Renault with synchronous production technique, which was a measure to more efficiently organize the upstream logistics. Thus parts could be delivered at the right time and in the corresponding order which helped to decrease in-process inventories and ultimately costs. The knowledge exchange between Renault and Nissan employees was achieved through the placement of Nissan engineers at Renault plants, which would provide continuous assistance. Nissan on the other hand was able to draw from Renault's cost management of the plants. The cooperation in manufacturing was probably the hardest task, since Nissan employees felt that Nissan was contributing much more to the cooperation than Renault. Even though this was the case in manufacturing Nissan benefited from Renault's expertise in other areas.

- **Joint Distribution**

By combining their distribution networks Renault and Nissan could guarantee each other mutual entrance to previously inaccessible markets. In the case of Renault this market would be the U.S, Asia and Australia. Nissan would make use of Renault's existing distribution networks in Europe and South America. Apart from Europe, where Nissan only had little presence, South America was an attractive opportunity. Despite Renault's existing infrastructure, the company's market share was diminishing, which was due to

the fact that Renault's small and medium sized cars barely matched the requirements of the South American market. The need to transport large groups of people and bad road conditions were much more appealing to Nissan with its pick up trucks and other large 4 wheel drive vehicles. Renault's entry into Japan turned out to be a more difficult task due to the resentment of the Japanese market for non Japanese cars. The overall market share of foreign brands was at about 5% with the majority of foreign brands being German premium and luxury brands.

- **Joint Information Systems**

A harmonization of information systems was perceived to be important to further strengthen the alliance. The Renault Nissan Information System would harmonize existing logistics, production and distribution systems. In a next step RNIS would also include the manufacturing and production systems.

- **Platform Sharing**

By utilizing the same platforms Renault and Nissan could achieve significant cost savings but still retain a distinctive design and brand image. As a Renault manager stated “ *A platform is the part of the car the customer doesn't see* “. Still cars that were sharing the same platform also shared several important parts such as engines and gear boxes. Prior to the merger Nissan had as many as 24 platforms, which resulted from a failed brand strategy. Renault on the other Hand had only 8 platforms. Renault and Nissan agreed that they would use a total of 10 platforms for all cars. The first two commonly used platforms were introduced in 2002 and were designed for small and compact cars. It was estimated that the two platforms would account for more than 50% of total production volume by 2006 and thus be among the three most commonly used platforms worldwide.

4.5. Alliance vs. M&A as a Mean for Consolidation

Fujimoto and Heller have studied classical mergers and alliances in the auto industry. The next paragraph gives an overview of their main findings and relates them to the two cases.

Fujimoto and Heller¹²⁵ address the question which of the two forms is the more suitable for inter firm linkage, alliance or M&A. The answer to that is not straight forward, since the optimal choice depends on the circumstances of the transaction. If the ultimate goal is firm size a classical M&A is the right solution, since a larger hierarchically unified entity is

¹²⁵ Takahiro Fujimoto, Daniel Arturo Heller, “ Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry “, University of Tokyo, 2001,p6-9

instantly created. If mutual learning and capability building is the ultimate goal of the transaction, then an alliance provides the better solution.

Hamel¹²⁶ finds that an advantage of a capability driven alliance, as is the case with Renault Nissan, is that entering into the alliance and effectively managing it's inter-firm relationship, enables the participating firms to avoid a full take-over merger, where the entire bundle of resources of another firm, including non-distinct assets, have to be purchased and organizational problems of post-merger integration tend to be larger. Barney¹²⁷ notes that acquisitions are often only possible at a price, which precludes the acquirer from earning above normal profits as a result of the acquisition, which is consistent with the findings regarding the relationship between the amount of acquisition premium and its impact on value creation. Thus Fujimoto and Heller conclude that alliances enable firms to gain secure privileged access to the valuable capabilities of another firm at a reduced cost, which can be considered a more efficient use of a firm's resources. I think that the main advantages of an alliance namely mutual learning and capability building are hard to achieve. As Barney explains capabilities are amalgamations of many different routines and practices within a firm and therefore socially complex, causally ambiguous and often path dependent, which makes them difficult to imitate and transfer. Fujimoto and Heller say that the first step to mutual learning and capability building is to try to maintain each entity's distinctive capabilities. Only if each entity preserves its core capabilities, mutual learning can develop by further strengthening the existing capabilities while at the same time drawing upon the partner's capabilities.

However mutual learning can only be achieved in the appropriate framework. This framework falls under the responsibility of top management, which is responsible to provide the channels for mutual learning. In my opinion the dispatching of highly skilled key executives to the alliance counterpart proved to be very successful. Dispatched key executives signal each partner's willingness and commitment to the alliance. Furthermore they act as the key link and stimulator for capability building. Fujimoto and Heller find that¹²⁸ this comes at relatively high human resource cost but this cost can be recouped if the managers apply their knowledge as dispatches after their return to their "home firm".

¹²⁶ Gary Hamel, "Competition for Competence and Interpartner Learning within International Strategic Alliances", *Strategic Management Journal*, Dec. 1991, p83-103

¹²⁷ Jay B. Barney, "Gaining and Sustaining Competitive Advantage", Addison-Wesley Publishing House, 1997

¹²⁸ Takahiro Fujimoto, Daniel Arturo Heller, "Recent Trends in Alliance Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry", University of Tokyo, 2001, p6-9

They note that the basic pattern of the global automobile industry since the 1980s is going towards the formation of multi level global alliance networks with differing degrees of cooperation. Doz and Hamel¹²⁹ support this view, where increased inter-firm cooperation are described as a product of intensifying “ races for the world “ in which firms seek to capitalize on global opportunities and “ races for the future “ where firms rush to gain competitive advantage in new innovations. Cooperation takes place in the fields of management strategy, product planning and engineering, process engineering, sales and marketing and so forth.

I will apply Fujimoto's and Heller's findings to the two cases. The merger of Daimler and Chrysler was originally intended to be a merger of equals, with the goal of creating a truly global car company, and thereby benefit from increased scale, operational synergies and to mutually benefit from each other's capabilities. The envisaged equality of the two entities was not existent from the beginning, where Daimler held 58% in Daimler Chrysler and Chrysler the remaining 42%. It was clear that Daimler intended to be the stronger partner, although this was not the official version. I believe it was this discrepancy that was at the root of the difficulties associated with the Daimler Chrysler merger. From an outsider's point of view the envisaged transaction would have been more suitable from an alliance approach, since both entities wanted to benefit from each others capabilities. The true intention from Daimler's side seemed different however and might have been a reason why the merger solution was chosen. Even during the implementation of the merger, there were little efforts from Daimler's side to truly integrate Chrysler. This was perceived by Chrysler and among other factors led to the resignation of several Chrysler key executives. From then on not only former Chrysler employees but also Chrysler shareholders sensed that Daimler was playing a crooked game with Chrysler. For that reason Chrysler's former biggest shareholder and a major Daimler Chrysler shareholder Kirk Kerkorian filed a law suit against Daimler Chrysler in 2000. In the short run a merger seems to be the more simple approach, due to more transparency and as compared to an alliance, clear hierarchical structures. Never the less it is still necessary to promote mutual integration otherwise the two entities rather drift apart than moving closer together. In the end a merger is much more complex than simply adding up the balance sheets especially in large cross border transactions. It is essential to create a common corporate identity, while at the same time respecting the distinct capabilities of each entity. As demonstrated with Daimler Chrysler the social and intercultural barriers were underestimated and ultimately resulted in a failure. Furthermore I believe that Daimler was

¹²⁹ Yves L. Doz, Gary Hamel, “Alliance Advantage: The Art of Creating Value through Partnering”, Harvard Business School Press, 1998

mainly going for size, but they communicated a different message to Chrysler. If Daimler had revealed its true intentions earlier maybe the merger would have never happened.

Despite the fact that Nissan was in a severe financial position and needed a partner to save it from bankruptcy, it seems to me that both Renault and Nissan have taken a more systematic approach. The decision to form an alliance was based on a true intention to benefit from mutual learning and capability building in the long run. The alliance partners seemed to have been more aware of their own and their counterpart's abilities, thus they could focus on how to exchange them. From the beginning Renault encouraged the exchange of knowledge by the establishment of the so called cross company teams. Nissan showed slight resistance at the beginning since they were afraid to lose their unique production capabilities for financial help and few soft skills basically in product procurement and marketing. However this resistance was soon overcome as Nissan realized that Renault was putting a lot of effort in the alliance for both partners to work. Finding the appropriate balance for both partners to feel that they are in a win-win situation, a none of them is worse off, is one of the key managerial challenges of alliance based inter firm linkage. As compared to a "normal" merger the overall effort is probably higher due to the coordinative complexity. If this barrier is overcome as in the case of Renault and Nissan the alliance will in the long run be the more effective mean for mutual learning and capability building.

5. Conclusion

In order to understand where the value creation potential in mergers and acquisitions lies one has to understand the basic framework and underlying assumptions behind them. Thus the introductory chapter provides a short overview of recent merger waves, M&A history and the several stages of the M&A process. The first chapter should not only have made the reader understand the basic concept of M&A but also underlined its complexity, which I believe is often underestimated.

Chapter two addressed the main motivations behind mergers and acquisitions. Not surprisingly the most common motive in this respect is of economic nature. Apart from other motivations such as managerial or strategic, the economic perspective and in this respect especially economies of scale and scope determine the M&A decision in most cases. The concept of economies of scale and scope leads to the central issue of the thesis. Scale economies can only be achieved if certain size requirements are met, thus the following sub

section of chapter two introduces horizontal mega mergers. Apart from multi billion domestic and cross border transactions I also mention strategic alliances as an alternative.

Having defined horizontal mega mergers and their characteristics, chapter three begins with the potential sources and limits of value creation in horizontal mega mergers. As I have outlined there are several sources apart from revenue enhancement and cost savings such as growth opportunities and other strategic advantages but they come at a high cost, the biggest challenge of all being the cultural barrier. However there are certain value drivers, which have a great positive effect on value creation if they are applied properly. During my research I found that there still is a lack of empirical evidence of value creation in mega mergers and thus further research in that direction would be useful. The existing evidence is mixed and suggests that mega mergers behave similar to the average merger, which implies that there is no significant relationship between transaction size and value creation. One finding however is certain, that the number of mega mergers has significantly increased in previous years.

Chapter four related the theoretical insights of the previous chapters to a practical example, here the two case studies of Daimler Chrysler and Renault Nissan. It should have become clear that such mega mergers require more than just financial muscle. An important determinant of value creation, which is often neglected, is post merger integration. In the long term I truly believe that post merger integration separates successful transactions from the less successful ones. Success or failure lie closely together but ultimately depend on the merging partners' willingness and ability to give up their own corporate identity and organizational routines in order to create a new combined entity, which embodies the best attributes of both.

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7. Addendum

7.1. German Summary

Die Diplomarbeit mit dem Titel “ Value Creation in Horizontal Mega Mergers at the Example of Daimler Chrysler and Renault Nissan “ behandelt das Thema der Wertschöpfung in großen M&A (“M&A“ steht für Mergers and Acquisitions was ins Deutsche übersetzt Fusionen und Übernahmen bedeutet) Transaktionen. Wertschöpfung kann in diesem Zusammenhang primär als monetärer Zuwachs aller Beteiligten, hier aber insbesondere der Aktionäre der jeweils betroffenen Unternehmen verstanden werden. Der mögliche Vermögens- Zuwachs bzw. Verlust wird dabei ab dem Zeitpunkt der Verlautbarung bis zur tatsächlichen Verschmelzung der beteiligten Unternehmen betrachtet, wobei der Zeitpunkt der Verschmelzung in diesem Fall nicht unbedingt der Zeitpunkt der rechtlichen Zusammenführung sondern vielmehr die tatsächliche operative Verschmelzung der vormals unabhängigen Unternehmen ist.

Um ein Verständnis für die Materie und die daraus resultierenden Fragestellungen zu bekommen liefern die ersten zwei Kapitel das theoretische Grundgerüst von Mergers & Acquisitions. Neben einem kurzen Überblick der unmittelbaren Geschichte von M&A, umreißt ich die einzelnen Stufen einer M&A Transaktion sowie deren wirtschaftliche und strategische Beweggründe. Da „Horizontale Mega Merger “ nicht immer zwangsläufig die optimale Lösung für die Erreichung bestimmter Ziele sind stelle ich in diesem Zusammenhang Strategische Allianzen als Alternative vor.

Kapitel drei beschäftigt sich hauptsächlich mit der zentralen Frage der Wertschöpfung in “horizontalen Mega Mergern“. Um diese Frage zu beantworten ist es wichtig vorerst die bestehenden Wertschöpfungspotentiale sowie gleichermaßen deren Grenzen aufzuzeigen. In einem weiteren Unterpunkt fasse ich die gängigsten Ratschläge, primär aus Fachliteratur, zur tatsächlichen Wertschöpfung bei “Horizontalen Mega Mergern“ zusammen. Der letzte Unterpunkt von Kapitel drei beschäftigt sich mit bestehenden empirischen Studien zu dem Thema Wertschöpfung bei “Mega Mergern“. Nach intensiver Recherche komme ich hier zu dem Schluss, dass weitere wissenschaftliche Nachforschungen in diesem Bereich sehr hilfreich wären, da die bestehenden empirischen Daten sehr unterschiedlich sind und daher nur ein unklares Urteil zulassen. Auf Grund der bestehenden Datenlage komme ich grundsätzlich zum Schluss, dass die Wertschöpfung bei Mega Transaktionen in etwa mit der Wertschöpfung normaler Transaktionen übereinstimmt. Daraus schließe ich weiters das

Wertschöpfung nicht unmittelbar mit der Transaktionsgröße zusammenhängt oder anders ausgedrückt, dass die Größe der beteiligten Unternehmen einer M&A Transaktion keinen messbaren Einfluss auf deren Wertschöpfungspotential hat.

Kapitel 4 versucht die gewonnen Erkenntnisse aus dem theoretischen Teil der Arbeit anhand zweier Fallbeispiele aus der Praxis zu verdeutlichen. Die herangezogenen Fallbeispiele stammen aus der Autoindustrie und beziehen sich auf die Fusion von Daimler und Chrysler und die strategische Zusammenarbeit von Renault und Nissan. Die Fallbeispiele sollen wie bereits im Theorieteil erwähnt zwei unterschiedliche Lösungswege, Komplettübernahme oder strategische Allianz, zur Erreichung des selben Ziels demonstrieren. Das Ziel war in diesem Fall die Sicherung des weiteren Bestehens auf dem Markt sowie zukünftiges Wachstum in einer stark konsolidierenden Branche. Weiters gehe ich kurz auf die transaktionsspezifischen Chancen und Risiken der einzelnen Fallbeispiele sowie deren zugrunde liegenden Motivationen ein. Die Fallbeispiele verdeutlichen, dass Erfolg und Misserfolg nahe beieinander liegen aber vor allem die Wichtigkeit von "Post Merger Integration".

Die Konklusio in Kapitel 5 fasst die wichtigsten Erkenntnisse der Arbeit nochmals kurz zusammen.

7.2. Curriculum Vitae

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Deutsch (Muttersprache)

Englisch, Französisch fließend (in Wort und Schrift)

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Jänner bis August 1998: Auslandsemester Episcopal High School,
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